



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

DEVOLUTION (FURTHER POWERS) COMMITTEE

Thursday 22 January 2015

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DEVOLUTION (FURTHER POWERS) COMMITTEE
3rd Meeting 2015, Session 4

CONVENER

*Bruce Crawford (Stirling) (SNP)

DEPUTY CONVENER

*Duncan McNeil (Greenock and Inverclyde) (Lab)

COMMITTEE MEMBERS

- *Linda Fabiani (East Kilbride) (SNP)
- *Rob Gibson (Caithness, Sutherland and Ross) (SNP)
- *Alex Johnstone (North East Scotland) (Con)
- Alison Johnstone (Lothian) (Green)
- *Lewis Macdonald (North East Scotland) (Lab)
- *Stewart Maxwell (West Scotland) (SNP)
- *Mark McDonald (Aberdeen Donside) (SNP)
- *Stuart McMillan (West Scotland) (SNP)
- *Tavish Scott (Shetland Islands) (LD)

*attended

THE FOLLOWING ALSO PARTICIPATED:

- Ross Martin (Scottish Council for Development and Industry)
- Stuart Patrick (Glasgow Chamber of Commerce)
- Alan Watt (Civil Engineering Contractors Association)
- David Watt (Institute of Directors)

CLERK TO THE COMMITTEE

Stephen Imrie

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Devolution (Further Powers) Committee

Thursday 22 January 2015

[The Convener opened the meeting at 09:31]

Smith Commission for Further Devolution of Powers to the Scottish Parliament

The Convener (Bruce Crawford): Good morning, ladies and gentlemen. I welcome our witnesses and those who have joined us in the public gallery as visitors. I ask that everyone ensure that their mobile phones and other electronic devices are switched off, so that they do not interfere with the broadcasting system.

We have received one apology, from Alison Johnstone.

Agenda item 1 is evidence from business organisations on the Smith commission's proposals. I will introduce the witnesses from left to right—I hope that I get the details right. Stuart Patrick is the chief executive of Glasgow Chamber of Commerce; Alan Watt is the chief executive of the Civil Engineering Contractors Association; Ross Martin is the chief executive of the Scottish Council for Development and Industry; and David Watt is the regional director for the Institute of Directors. We are very glad that you are here. The focus may not be on the committee this morning given what else is going on, such as the publication of the draft clauses, but we think that you are the most important visitors to Parliament.

I will quickly summarise the meeting's structure. We will keep the evidence session as informal as we can, although I ask that everyone speak through the chair. We have four witnesses, so I ask that committee members make their questions as concise as possible. It would help if the answers were concise, too. We will start with questions on taxation and borrowing and then move on to welfare questions before we sweep up any other important matters. I will address my questions to all the panellists, and I think that most members will do that, too. If you want to contribute, please indicate that to me. Committee members may want to ask specific questions of specific individuals, but we will see how it goes.

To begin, I will ask a general question. I want to understand the extent to which the Smith commission proposals constitute, in your eyes, a set of powers that should enable the Scottish

Government to create conditions that would improve the performance of the Scottish economy and create jobs. Has the Smith commission helped in that regard, or could other things have been done? I do not mind who kicks off. Ross Martin looks like he is ready to go.

Ross Martin (Scottish Council for Development and Industry): Good morning. I will give you a bit of context in relation to the impact of any changes, particularly changes to the tax system. My comments will probably apply to everyone at this end of the table.

This building is as good a reminder as any of the attractiveness of asymmetry to some people, but asymmetry and its attractiveness are in the eye of the beholder. The common concern about the proposals is that with the additional levels and layers of complexity come additional levels and layers of cost. However, there is a long-standing recognition—certainly by the SCDI—that the centralisation of the United Kingdom economy has been an issue for decades. A rebalancing of the system is a necessary part of the negotiation and we welcome that—indeed, we have been calling for that rebalancing ever since the year that I was born.

In 1969, when I was still in short trousers, the SCDI was considering the impact of the centralisation of the economy and the centripetal pull to London. In particular, it was considering the impact on the big cities and the effect that an unbalanced economy was beginning to have in both private and public sectors. It was looking at what could be put in place to rebalance the economy and to give the nations and regions, as we would now call them, the opportunity to have exactly what the convener has just suggested: a package of measures in the right context, a set of powers and the ability to effect positive change in a part of the UK economy in a way that provided benefit.

The SCDI has discussed conducting an economic benefit test for individual proposals, but we also want to ensure that the package is viewed collectively, rather than its elements being viewed in isolation, and that there is some form of test. The chancellor went a stage further in his evidence to the UK Treasury Select Committee yesterday. It will be interesting to see exactly what is meant by the phrase “no detriment” and whether that places boundaries on the package or moves from boundaries to control mechanisms. It will be interesting to see what is said today and what follows on from that.

Fundamentally, the UK economy is one of the most centralised economies in the world, and there is a broad recognition that that needs to change. We welcome the ability to have that discussion sensibly and openly.

Stuart Patrick (Glasgow Chamber of Commerce): I have three points to throw in. First, our members broadly welcome the transfer of powers. The response has been similar to the SCDI's view, which Ross Martin has just described. That reinforces the recognition that the balance of fundraising in both national Parliaments in the UK—and, for that matter, in cities in the UK—has been too limited.

We are constantly struck by the fact that the proportion of revenue that is raised in Scotland or in the UK city regions is under 20 per cent, whereas the Organisation for Economic Co-operation and Development average is more than 50 per cent. That has implications for the productivity and performance of the country. We therefore welcome the Smith commission's nod towards further devolution of powers beyond the UK Parliament. It is important to recognise that UK cities, on average, tend to be underperforming on productivity in comparison with their competitors overseas. We want to understand more about why that is happening, and we think that the transfer of revenue-raising powers to local cities and local communities is part of the story.

The second issue relates to the single market. I am not saying that the implementation of individual powers might lead us into difficult territory in that respect, but we are concerned that there should be some mechanism—not dissimilar to the test that Ross Martin mentioned—for judging the possible implications of any use of the powers on the single market. We have drifted into that territory occasionally, even under the existing regime. I know that minimum pricing for alcohol is controversial, but that is a good example because the discussion about the use of that power is affecting free trade potential beyond the single market in the UK, and we do not want such a situation to arise in the UK.

Thirdly, although we welcome the transfer of all the powers around income tax, we must be aware of the responses that we got from our members during the campaign. They told us which issues they felt were most important, and income tax was near the top of the list, so I cannot guarantee how they will react to particular uses of income tax powers.

The Convener: No one likes increased taxes—we know that.

David Watt (Institute of Directors): I will make a few general points. Business has already been very enthusiastic about this Parliament's having some accountability for its income as well as for its expenditure. As people in business say, it is easy to spend money but it is much more difficult to be accountable for how it is raised and for the implications of that. I am not sure that the implications are always necessarily thought

through. That is a big issue for us, too. We will wait and see how things pan out, but it is a very good principle that this Parliament should be accountable for its income—at least, a significant amount of it—as well as for its expenditure.

A key point that Robert Smith makes in the report—which is not legislative—is how crucial it is to work together. At times, we all encounter the problem of departments not speaking to one other. I am not sure that that does not happen sometimes within the Scottish Government, but let us park that for a little while. It certainly happens between the Scottish Government and the UK Government, and that is extremely detrimental, particularly in areas such as the return to work.

I was involved with the now First Minister's commission that examined welfare reform, and I think that there is a real need for working together in certain areas. That would be really helpful. Put bluntly, the Department for Business, Innovation and Skills is completely disconnected from Scotland. Whose fault is that? I am not totally sure—there is probably fault on both sides—but that is not helpful to business in Scotland. We need to get that sorted for the future benefit of everybody.

There are some welcome principles but, as Stuart Patrick said, we will wait and see how things pan out in relation to certain taxation issues.

Alan Watt (Civil Engineering Contractors Association): One of the nice things about going last is that most of the things that I was going to say have been said. I have a slightly different perspective from the other gentlemen here in that I represent a single sector that is very dependent on public sector expenditure. Therefore, we are watching the situation very closely.

Our members largely welcomed the recommendations. We believe that, throughout its history, the Scottish Parliament has spent what it has had wisely. It therefore seems logical to extend its borrowing powers. To raise funding requires a methodology. As I say, we broadly welcome the proposals. The caveat that we would add is that, although our industry has quite a high turnover of roughly £2.5 billion, it is very low in margin, which we estimate to be between 2 and 5 per cent. Therefore, the industry is quite sensitive to changes, and we would ask that any changes in taxation or legislation be drilled down into very deeply to check their wider implications and for any unintended implications.

The Convener: I think that all the submissions touched on the issue of borrowing powers. There is obviously a bit further to go regarding the arrangements that have to come through the UK and Scottish Governments—there is still some way to travel before we understand exactly what

the powers will look like, although the principle to extend them is agreed.

It would be helpful to us if any of you could provide us with a picture of what you think the sensible arrangements for borrowing should be. Is there a general amount that Scotland should be able to borrow up to? Should it be based on the prudential borrowing system that local authorities have? What arrangements would be the most suitable for Scotland? As the arrangements have not settled down yet and a lot of discussion is going on, you have the opportunity to influence our thinking today.

Ross Martin: Over the piece—not just on borrowing, but on the whole array of powers—Scotland, not having previously had responsibility for revenue raising and that side of the balance sheet, as the Deputy First Minister would put it, does not have the mechanisms by which to make an independent assessment. In particular, the role of the Office for Budget Responsibility comes into question. Whether or not the OBR, as it currently exists, would be the appropriate body and mechanism for that, or whether its role should be devolved in some way, as some members would suggest, there needs to be a maturation of the accountability and responsibility aspect. That was a major aspect of our members' views. With rights come responsibilities, and with responsibilities comes a need for regulation—clever, agile, flexible, accessible and transparent regulation.

There must be a proper discussion about how we do that, who is going to be responsible for it, what the metrics will be and who will be responsible for policing it and for any fiscal transfers that are required, for example. There are a range of issues that the Scottish Parliament has not necessarily had to tackle in the past, and it will have to get up to speed on them pretty quickly.

The Convener: This is a crucial issue for Alan Watt's industry because it is heavily dependent on public expenditure on infrastructure through borrowing. Is there anything that you would like to add?

Alan Watt: No. I think that Ross Martin has summed it up well.

09:45

David Watt: I back up the point that some sort of Scottish OBR might be welcome. We do not want borrowing for the sake of borrowing. As with all other powers, we want it for a purpose, such as infrastructure development. We certainly do not want the situation that the UK has got itself into, of borrowing to keep its normal revenue spend working. That is not the way that we want to go in Scotland, as it is not beneficial. However, if we can borrow sensibly for things such as the new Forth

crossing, which is close to my heart—I spent some time on the bridge this morning—let us do that.

It is really worth while to borrow for things such as the A9 improvements and other projects that the Government has embarked on—other people in the room could suggest others—if we do so over a long period of time and at a sensible Government rate. That makes a lot of sense. However, to get into borrowing for revenue spend is a recipe for debt and disaster, as many other countries have seen.

Stuart Patrick: We would welcome a discussion about the distinction between capital and revenue borrowing. From what our members say, I suspect that they feel comfortable with the idea that whatever Scotland gains in borrowing powers should be taken off the UK so that the overall UK envelope remains sound. However, there tends to be some room for manoeuvre and a bit more flexibility in capital borrowing for infrastructure investment. I wonder whether, within the UK envelope, there is scope for a marginal increase in capital borrowing, rather than Scotland being constrained within the overall UK package. That area is worth examining.

Ross Martin: As well as borrowing, we can look at other ways of leveraging in external finance, particularly for infrastructure projects. In our submission, we raise the possibility of bringing together the offshore and onshore economies and putting in place, for example, tax credits and allowances. In the current circumstances, that is probably more of a challenge, but in normal times it is important to enable oil and gas companies to invest in onshore infrastructure—that could be done as part of the city deal in the north-east, if there is to be one—in full recognition of the fact that the development of that infrastructure will help the sector in terms of labour mobility.

The Convener: A couple of members have indicated that they have supplementary questions.

Tavish Scott (Shetland Islands) (LD): Thank you for your points on a tartan OBR, which I have been arguing for for a long time. The more you all say on that, the better, in the interest of independent forecasting and analysis.

All your submissions highlight the importance of a single UK market. Mr Patrick, you made a good point on that, mentioning a test of the impact on the single market. I agree with the principle, but will you elaborate on that?

Stuart Patrick: I suppose that an interesting comparator would be the discussions about the transatlantic trade and investment partnership and the extent to which we are attempting to remove barriers to trade between the United States and Europe. I acknowledge that there are controversial components to that, too, but we would say that

business regulation is the largest part of the challenge of delivering TTIP.

It is not necessarily about direct tariffs—no one is suggesting that we start having financial tariffs—but over time we could find that consumer protection, environmental protection and particularly health and safety lead to regulatory decisions that affect products and their ability to enter markets. We might end up discovering by accident that we have Scottish regulations that put costs on products from other parts of the UK or, more damagingly to us, put costs on our accessing other parts of the UK. That is a fundamental part of the trading arrangements of the single market.

I think that regulation issues are quite often more difficult to spot up front, which is why we would advise the introduction of a test or, indeed, some form of business advisory group to the Parliament that would highlight to members well in advance where the implementation of a power or a particular act under a power might lead to regulatory barriers between the different parts of the UK.

Tavish Scott: So you are talking about some mechanism that does not currently exist but which would give business the opportunity to comment on these matters when they were first thought of in either regulation or draft statute.

Stuart Patrick: Exactly.

Tavish Scott: Thank you.

Ross Martin: We have not gone as far as calling for the establishment of a tartan OBR, but we have made the point that there is an absolute need for that level of data. Whatever mechanism is put in place, it will need to give us disaggregated data.

The Convener: Mark McDonald has a supplementary on this area.

Mark McDonald (Aberdeen Donside) (SNP): Professor David Heald from the University of Aberdeen has given evidence on some of the complexities that might arise as a result of the devolution of tax powers, and we have seen an indication of that playing out in the process for introducing land and buildings transaction tax. The concern is that, because the Scottish Government consults early—indeed, as far as the Scottish rate of income tax is concerned, it has to notify the Treasury well in advance of the Treasury setting tax rates at a UK level—there could be gaming by the Treasury, particularly with regard to the assignation of VAT. Professor Heald suggested, for example, that when Scotland set its income tax level, the UK could reduce income tax but hike VAT. Such a move would, of course, have an impact on the rest of the UK, but because

Scotland would be setting its own income tax rate as well as receiving assigned VAT revenues, it would not have the flexibility to deal with the situation. Do you share that concern? Moreover, what are your views on the Law Society of Scotland's suggestion to the Finance Committee, on which I also serve, that a financial fair play agreement or clause is required to ensure that these kinds of scenarios do not arise?

David Watt: I do not want to criticise the Treasury publicly—

Stewart Maxwell (West Scotland) (SNP): Go for it.

Tavish Scott: Well, you are being led in that direction.

David Watt: As I have said, I genuinely think that, first and foremost, departments across the UK should be working together. As long as we are the United Kingdom, we should be working together as a United Kingdom, and I do not think that any department, including the Treasury, should be allowed willy-nilly not to consult Scotland or to ride roughshod over this Parliament. To be honest, I do not think that that should be allowed to happen, and if that has to be laid down in statute, perhaps that is what needs to be done.

I absolutely take the point that the matter is complex, and it will remain complex over the next few years. As we are, I suppose, at the sharp end, we will suffer from some of the complexities associated with the Scottish rate of income tax, which is coming in any case. Given all the challenges that business is going to face, we do not want anyone to be difficult—I was going to say “be stupid”, but then I thought that that might be a bit impolite—and make our lives or life for a business's human resources department or accounts department even more difficult by being silly about VAT and other forms of taxation and not being open, helpful and consultative. Levels need to be set as far in advance as possible to allow business to put the mechanisms in place for collecting the tax, which it does on behalf of this Parliament and others. That is a real disenchantment for business. We are first and foremost tax collectors for you guys, and we need to be co-operatively supported in that way. When departments fight with each other, it just makes the situation even worse than it is—and it is not very pleasant at the moment.

Ross Martin: Although we are in uncharted waters as far as the reshaping of the UK is concerned, these waters are not uncharted in international terms. Indeed, there are visitors from Canada at this morning's meeting. Clearly there are systems around the world that strike this particular balance and which operate on a certain

set of principles with agreed metrics. There is a recognition that such things have to be made clear at the outset to reduce considerably the latitude for mischief making—or gaming, as Mark McDonald has called it. There are mature systems around the world from which we can learn lessons about relative power and the relationship between the federal and state levels.

Stuart Patrick: Inevitably, differences are going to emerge over time. I can understand why, on the one hand, such an approach might be considered to be gaming, but, on the other, one might see it as responding to the demands of local areas. If people in Newcastle watch Scotland make decisions on local taxation that will have direct and immediate impacts on investment patterns, I would not be too surprised if future Chancellors of the Exchequer come under significant pressure to respond. I can imagine that that might lead to a degree of enforcement of the case for greater devolution to local areas, because the Treasury would want to have the flexibility to respond to the requirement for Newcastle or the north-west to be able to maintain competitiveness. Therefore, I think that we should expect that.

The Convener: At this point, I formally welcome our guests from the Canadian Parliament, who have joined us to listen to what we are up to. Welcome to our deliberations.

Lewis Macdonald (North East Scotland) (Lab): At the outset, the convener asked about your general take on the powers that will be devolved to the Scottish Parliament under the Smith agreement. I have a couple of questions about those general considerations, but I will come at the issue from a slightly different angle.

My first question relates to city regions. The submission from Glasgow Chamber of Commerce is very strong on city regions. Ross Martin from the SCDI has already mentioned the proposition of city deals. Glasgow already has a city deal and Aberdeen is applying for one. Does the panel think that the Smith agreement goes far enough or says enough about devolution from the Scottish Parliament to localities or city regions? Does it at least lay the foundation for that to happen in the future?

Stuart Patrick: We were delighted that Lord Smith nodded towards that, but we felt that it was understandable that he did not go further because, arguably, it was not within his remit to do so. We certainly welcome the fact that he has opened the door to such discussion.

I say straight up that we are very enthusiastic about the notion of city deals for all the cities of Scotland. It is not a question of one city benefiting over another. We are talking about a change in the system of governance across the UK to reflect the

fact that our approach to metropolitan urban development has been behind that of many of our competitors. That is important because cities and particularly city regions have become much more important for attracting investment and developing business, largely because they are centres of innovation. That has become significantly more important to achieving productive growth in the UK economy as a whole.

In the UK economy and in the Scottish economy, our most fundamental problem is productivity. If our cities are well below average on productivity, London aside—London is a very unusual case—we need to ask why that is happening. Our view is that the balance of powers has been too skewed towards London. Equally, there is a risk that we take the step towards transferring the powers to the Scottish level and ignore many of the trends that have been happening around the rest of the world for decades and in England over the past five years to improve the powers and the flexibilities of our competing cities. I cannot deny that we have been a little scared by Manchester—with which we are very friendly and the competition with which we enjoy—as we have watched the powers that it has accrued over the past three or four years. Its ability to invest in infrastructure, skills and innovation systems is potentially significantly greater than that of any Scottish city.

Ross Martin: I want to follow on from that. In the period since 1999, we have seen a change in the relationship between central and local. Some of that change has been in one direction and some of it has been in the other. All the while, it has been recognised that there needs to be a much bigger transfer to the city region level. That is where the action should be.

We are beginning to see that in the approaches of the UK and Scottish Governments. The Scottish Government has the Scottish cities alliance, which is a partnership, and the UK Government has the city deals. If change is to be effected at that level, the underlying principle is that there needs to be a letting go from the centre. The key ingredient is diversity and recognising the different circumstances in different parts of the economy.

Lewis Macdonald: To come at the issue from a different angle, in the submissions that you all made to the Smith commission, arguments were made about the importance of corporation tax remaining a reserved issue and about employment law and other areas that seemed to you to be important from a business point of view. Do you feel that the areas that have been reserved under the Smith agreement are the right ones and are sufficient to give that degree of single market status or competitive advantage to business in Scotland?

10:00

David Watt: I do not have much disagreement with the Smith commission outcome at this point—it is where it is. At the beginning of the meeting, the convener asked whether enough powers have been devolved to help business operate in Scotland. My honest answer is that I do not think that I will know that until after the powers are implemented.

As I said earlier, my biggest practical concern is whether we are getting the business benefits that should be being delivered through BIS really operating in Scotland. The clear answer is no. There are a few schemes that could be much better run and more fully developed in Scotland, regardless of devolution.

We will not be rushing to give a long list of other things that might be devolved at this stage. However, there is concern that, if things do not work, for example in welfare and getting people back into work, which I mentioned earlier, it will be clear that the devolution of powers is not adequate because the departments are not doing as Lord Smith requested and delivering this together.

Ross Martin: On a point of general principle, predictability and stability are the watchwords in any changes. Lewis Macdonald will know from his position up in the north-east the impact on the North Sea of the fiscal shock in 2011. Our members were rightly pretty mad about that huge, unpredictable change in the regime. We would like some level of predictability, which leads to more stability as a general principle.

On specifics, our position on corporation tax is to leave it as is. However, if a deal were done with Northern Ireland that changed the system in that part of the UK, we would want to go back to our members over time to look at the evidence of any impact that that had. Obviously, the situation over there is different because of the border with the south, but we would still want to have a look at the evidence of any impact over time.

Stuart Patrick: I would be the last person to say that reducing corporation tax for Scottish companies is a bad idea, but the challenge with corporation tax is that currently many companies that trade pretty much within the UK do not have to worry about the allocation of profits between different regions of the UK. The practical administrative challenges of doing that and introducing transfer pricing and understanding domicile are concerns about administrative burdens that do not apply to the assignment of VAT or the implementation of income tax. With income tax, we have to deal with an individual code for every employee anyway, so it looks easier to use the existing systems for that. There are challenges in introducing a separate

corporation tax—it would be interesting to see how Northern Ireland dealt with those challenges. It is worth noting that those concerns were expressed.

The Convener: A couple of members have supplementaries in this area.

Duncan McNeil (Greenock and Inverclyde) (Lab): I would like to draw the link between the low productivity that exists not just in Scotland but across the UK and employment law. Does the current situation not allow some employers and management to sweat labour rather than be innovative in the area of productivity? We heard strong disappointment last week that employment law was not being devolved. If some aspects of employment law were devolved, would that not be a tool to challenge management in Scotland to address productivity levels rather than sweating the labour on low wages, temporary contracts, zero-hours contracts and so on, which is an easy route for them to take but which leaves us with poor levels of productivity?

Stuart Patrick: If I could answer the question immediately as to why we had low productivity, I would be one of the first economists to be able to do so. I am not convinced that there is evidence to prove that aspects of labour policy are the most important issue for UK productivity. When you look at international comparisons with the UK, you see that the issue tends to be around the indefinables. It is not about labour or capital but about innovation and the way in which businesses enter particular markets and are clever about the kinds of products and services that they bring to the markets, and it is incredibly difficult to understand what it is that affects that.

The Americans' productivity levels depend on their ability to innovate; that is why we are interested in things such as centres of excellence and catapult centres and in the business, Government and academic worlds working together practically. We think that that probably has more of an impact, alongside some of the infrastructure issues that we feel the UK as a whole has underinvested in for decades. Those are more likely to be an issue. We are actually not bad on skills; we are relatively competitive. In Scotland, we are not bad on skills, so I am not convinced that there is a direct productivity issue. There may be all sorts of issues to do with fairness and distribution, but I am not sure that I can see the productivity link.

David Watt: I do not recognise the "sweating the labour" description. I would like to see some evidence of that but, as has been said, there are different expressions for that. As Stuart Patrick says, there are reasons for our levels of productivity, and we should address and fundamentally review those. The thing that I cannot get my head around is the fact that all our

universities are in the top quartile but our business research and development is in the bottom quartile of the OECD figures. That just does not make any sense. Those things do not match.

I do not want to start a debate on employment law, but you may want to reflect on the fact that zero-hours contracts are to do with employment law; they are not breaking the law as it stands, and that is the problem. The laws are probably not helpful for employing people, which is part of the issue. Had that been devolved to Scotland, would it have been any different? I am not sure that it would. A lot of the implications for that are Europe-wide, not just UK-wide, but this may not be the right place to go into a lengthy debate about employment law.

Most of my members are spending every waking hour to keep their employees employed, working as best they can and being as productive as they can. They are not trying to sweat them, sack them or get rid of them. In many cases, they are trying to find them. I have to disagree slightly with Stuart Patrick and say that I do not think that we are fine as far as skills are concerned. I think that we are still massively short in certain areas, notably engineering, so there are challenges on that front.

Going back to the comments on welfare reform, I note that the evidence from the work that we did showed that, without a doubt, the biggest single determining factor in whether a person was employed was their skill base and skill level, and that is something that we have to address as well. There are some massive issues around that in terms of productivity.

Ross Martin: We represent a wide array of organisations in the private and public sectors and the social economy. On balance, we came out in favour of maintaining the status quo for employment law, but you have hit on an issue that our members are becoming interested in. We ran a session just last night with Roseanna Cunningham on her new fair work responsibility, and it was the fastest-selling, most oversubscribed session that we have had for a long time. There is clearly a mood out there behind that agenda, and whether it is addressed through changing the balance between Westminster and here or by changing the partnership and the way of working and trying to sort out some of the issues with overlapping responsibilities that David Watt mentioned—between the Department for Work and Pensions and Skills Development Scotland, for example—there is certainly an issue to be tackled and a desire and a hunger to tackle it.

The Convener: I know that Rob Gibson wants to ask about research and development issues, and we will pick up on some of the themes that are

beginning to emerge there, but Linda Fabiani has a supplementary question.

Linda Fabiani (East Kilbride) (SNP): I am interested in the recognition of employment skills. One thing that I was keen to have in the Smith commission report was an overall cohesion. Perhaps we can break things down into the areas that directly affect your members; I am thinking in particular of things such as Jobcentre Plus, apprenticeship schemes and incentives for employers to take people on and to promote skills. For an awful long time, business has been saying that it is all very complicated. I think that the SCDI submission says that it would like everything to do with employment to be integrated, for example in relation to Jobcentre Plus. You will have noticed that that has not happened and that what is proposed under the Smith commission is very much an administration role rather than a role involving control. Is that a missed opportunity as far as your work is concerned?

On the issue of skills, we are unable to do anything on immigration. I know that there is a shortage of skills in engineering and that, with certain skills, it is very difficult to employ people from other parts of the world. After all, the slant taken in UK immigration policy is very different from what is necessary for Scotland. In that respect, I should mention our friends from Canada who are in the public gallery, given that Canada's system is often looked at because of the provinces' ability to attract the kind of skills that they require.

Ross Martin: On immigration, we expressed the strong opinion in our submission that there needs to be much more flexibility and a recognition of the impact of a restrictive immigration policy on an economy that clearly needs to attract people and skills. We absolutely agree with that point.

As for cohesion in the provision of services, our view is very much that there is plenty of scope within the current settlement for better working relationships and more cohesion between organisations that currently have responsibility. In fact, we made that point when we met the new head of Jobcentre Plus yesterday. There certainly seems to be willingness on both sides at officer level, but we have yet to see whether you guys, at political level, have the same willingness. It will be interesting to see whether the new measure of co-operation and change in the nature of the relationship can move on a pace or two.

David Watt: We very much support the point about immigration. To be honest, I think that if I were to identify one UK policy that is not fit for purpose in Scotland, it would probably be immigration. It is just not working. I know that work has been done on that, and we have somebody on

the group that has been set up—one of your colleagues is a member—to look at proposals such as re-establishing the fresh talent initiative.

We absolutely must do something about this issue. It is crazy that we are turning young people away from our universities and colleges and our workforce when we desperately need them and when they want to be here. Why are we doing that? We have a policy that is based on what happens in the south-east of England and which does not fit this country. Whether we like it or not, our population is basically static. Okay, it has gone up 200,000, but that is not a lot, given the number of years that that has taken. There are real challenges to address, and something has to be done, without a doubt.

To put it bluntly, I think that even if those organisations were not run by the same Government, it would be a step in the right direction if they could locate themselves in one building on the high street to ensure that the individuals who needed their services could go to one building and get them. The customer does not care; they just want the help. As Ross Martin has suggested, we really need to work together.

Alan Watt: I reinforce what the others have said. Speaking as a representative of a single sector—the engineering sector to which Linda Fabiani referred—I think that at the moment we have a chronic shortage of skills that could in some way be addressed by immigrants. However, the backdrop—or, if you like, the mechanics—is not there at the moment, and it would help immensely.

I, too, support the cohesion argument. The lack of cohesion presents a miasma to an employer, who has other things to do. The people whom I represent want to build things instead of trying to navigate through tricky bureaucratic landscapes in employment and the like, and anything that can be done to aid that journey is welcome.

With regard to apprenticeships, there has definitely been a mood swing in Scotland—it is probably post the Wood commission—and we are beginning to see far more cohesion between schools, further and higher education institutions and employers. That is beginning to hit the park, as we would say in our sector, and the same cohesion that we would look for in employment is beginning to come through the education and skills base.

10:15

Stuart Patrick: Going back to David Watt's disagreement with me, I think that I misphrased myself. I am not saying that there are no skills shortages; I am just not sure whether it is clear that that is the main reason why we have been

unproductive. There is clearly a skills shortage in engineering, and Glasgow Chamber of Commerce has been quite vocal about that, given that it is such an important part of the economy.

On immigration, we can be quite specific about the importance of postgraduates, for example, being able to stay in Scotland for a period of time after their graduation. If movement could be achieved there, it would make a difference to some of the discussion that we are having about the integration of business with research and development in universities, and to the impact on the rate of start-ups in the country. Overseas students on postgraduate courses are constantly asking me what I can do to help them stay here, because they want to start a business. That is a pretty regular request, and more could be done in that area.

As for co-ordination, I am aware that one or two of my members are interested in the extent to which the work programme transfer will be genuinely flexible. It is important that local authorities, Skills Development Scotland and the delivery of the work programme are all in harmony. At the moment, we get the sense that that is not happening. It is almost as if local authorities and Skills Development Scotland are clearing up behind the operation of the work programme. It would be disappointing if the transfer of the work programme did not lead to a much more coherent interaction. However, I agree with Alan Watt's point that much more integration is happening in the apprenticeship field, and that is very welcome.

The Convener: That is encouraging. As Rob Gibson earlier indicated an interest in research and development and innovation, which has come up in a number of responses, I think it appropriate to let Rob in with his question.

Rob Gibson (Caithness, Sutherland and Ross) (SNP): Stuart Patrick has talked about being productive, while in its submission, CECA says:

"We would welcome the exploration of further powers which could allow for additional incentives to support and stimulate business research and development."

The IOD has talked about research and development tax credits, and SCDI has talked about additional tax incentives. Has Smith clarified that issue, and is it likely to be delivered?

Ross Martin: No, and probably not.

Stuart Patrick: One of the challenges is that quite a few powers are already in place to support research and development activity, particularly regional selective assistance and the various grants that come through Scottish Enterprise. The question that I have to ask now is whether we would genuinely achieve a great deal more with

substantial tax powers or whether the company base is the right one to start with. We could reduce tax powers and it would make no difference whatsoever, because the company base itself was wrong.

There are particular areas to consider. For example, the patent box with the 10 per cent rate is clearly having an impact on life science companies. It might be that over time and as we build up the capacity of certain sectors, particularly engineering, tax powers will become more effective. At the moment, I find it curious that although an array of grants, which are the flipside of tax powers, is available, they do not appear to be making a tremendous amount of difference. We would be sympathetic to greater powers to reduce taxes in research and development, but we have to ask why the current grant arrangements are not quite leading to change.

Rob Gibson: The other organisations appearing before the committee this morning have made it clear that those powers are key to dealing with productivity through better research and development. David Watt, do you have anything to add apart from your belief that that will not occur? Can you underline some of the points that you have made?

David Watt: There are two or three things to say. I made a point about disparity; there is something that we can do right now, and I will talk about that before we go on to the tax point. We have an organisation called Interface, but the fact is that we do not have enough interface between our universities and businesses. I am not blaming universities for that—it is probably more down to business.

I am aware of a lot of businesses that do not understand our tax credit system, and perhaps we have a role to play in publicising that. I have a member who 10 years ago started what is now a successful business on this very issue; he is now doing something similar in Morocco, of all places. The niche that he has found is to get companies to realise that a tax credit system is available, and he takes his percentage. It is an education thing.

Perhaps such incentives would be more popular if they were more widely publicised. To be blunt, Her Majesty's Revenue and Customs is not famous for publicising the fact that it sometimes gives money away. Incentives can be very helpful to business, so there is an education issue in that respect. Perhaps it would help if the incentives were more beneficial and were targeted at local areas or at industries in certain situations.

For example, one could argue that the oil and gas industry needs support at present. It did not need support five years ago, and it might not need it in five years' time, so the question is whether we

could flex support. Indeed, a good question is whether such support would be more effective—and could be more varied—if the power lay with the Scottish Parliament.

The situation is quite complicated. The fact that university research is an international—and certainly a UK—business raises complicated issues. There is also an issue with how it applies to and reaches business.

Stuart Patrick is right that there are already a number of schemes. However, some of them are not getting out there, and we need to look at that first. Secondly, there is an implication that we do not provide enough of those schemes, and we would be happy to discuss how we might do so more fully. One argument for having the power in this Parliament is that it could make such schemes more effective and bring them closer to businesses in Scotland.

Ross Martin: There is a big goal to be achieved. Even HMRC recognises that there is a benefit of £3.60 to be had for every pound of tax credit if those incentives are targeted appropriately. Such appropriate targeting would involve considering whether any change to the system would allow us to target sectors that are most likely to benefit from support. For example, the Scottish Government could target support at life sciences or at areas of the economy in Scotland that needed an extra incentive that the same areas in the rest of the UK did not necessarily need, and we would support the ability to vary support in order to recognise the diverse nature of the economy.

Rob Gibson: For example, the need for research and development in forms of energy other than oil and gas clearly goes with the need for more tax credits.

Stuart Patrick: One thing that we have found quite encouraging in the city region in the west is the emergence of much closer working between the Scottish Further and Higher Education Funding Council and BIS through Innovate UK, which was formerly the Technology Strategy Board. There is also support for centres of excellence, which bring businesses, academics and Government together in single locations. Examples include the stratified medicine centre that will be developed alongside south Glasgow university hospital, and the technology innovation centre that the University of Strathclyde will soon be opening next to its facilities in the centre of Glasgow, which will focus mostly on engineering and to some extent on the energy market.

That is all quite encouraging, because it is a different approach. We have tended to consider research and development within company taxation incentives or try to get spin-outs from

universities through the commercialisation of university research. The idea of university departments working alongside businesses to solve practical problems in co-located areas is relatively new, but it has some promise.

In a sense, we still do not fully understand the reasons for our level of business research and development being as low as it is, and we want a panoply of measures instead of relying purely on arguments for research and development tax credits. That incentive should be part of an overall package; the portfolio of measures must be much more wide ranging.

The Convener: Tavish Scott has a supplementary, and then we will go to Alex Johnstone. We have been talking about how we might spend tax revenue, and Alex has a question on how we might raise tax and the issue of divergence.

Tavish Scott: Rob Gibson makes a fair point, but I want to contrast what we have heard with earlier observations about not wanting to make the tax system more complex. My recollection of the submissions to the Smith commission—Linda Fabiani might remember this, too—was that there were an awful lot of comments from business along the lines of, “For God’s sake, don’t make the whole thing even more complex.” The area of tax credits was one in which that view was highlighted time and time again.

Can you square this circle for me? You want more room for manoeuvre on tax credits. Will that be done through and with the Scottish Government and the UK Government working together to achieve it, or do you want absolute devolution of the type of credits that some of you have described this morning?

Ross Martin: Inevitably, it is a bit of both.

Tavish Scott: I wondered.

Ross Martin: Personal taxation in the tax credit system is overly—in fact, massively—complex, and it is clear that there are lessons to be learned from that side of the taxation system with regard to business taxation. The personal tax system has struggled with the balance between the level of complexity and the ability to target, but there is still a balance to be struck, and that balance might be different in different parts of the UK.

David Watt: On Tavish Scott’s point about Governments working together and making things clearer, I am not quite sure that this particular responsibility has to be devolved, but the approach certainly has to be more localised, because it is not seen as easily accessible by companies from Applecross to Elgin. That is an issue. The fact that it is much easier to do what we are talking about from here than from London is

probably a strong argument for devolving that tax and implementing and supporting this approach. However, we are talking about a UK system. It would be nice if, as we have discussed, it could flex to industries and sectors, but its impact certainly has to be more localised.

The Convener: We need to move on to other areas soon, but Alex Johnstone has a question about tax.

Alex Johnstone (North East Scotland) (Con): I want to talk about the tax system in a slightly more general sense. We have seen submissions on corporation tax, for example, from your organisations and from a range of groups that are fairly opposed to its devolution because of the divergence issues that may come along. However, there is clearly plenty of room in the Smith commission proposals for divergence in the tax regime. It is interesting that most of the witnesses to whom we have spoken in previous weeks have wanted tax powers to be devolved, but not so that taxes could be cut; perhaps they were thinking of ways in which they could spend the money. What initial threats to businesses in Scotland do you see in a divergent taxation system?

David Watt: As one who recently sat through discussions on the coming Scottish rate of income tax and the defining of a Scottish taxpayer with 10 Treasury officials at the other end of a video camera and about five people, most of whom were actuaries, sitting in an office in the bowels of Melville Crescent, I can tell members that things are pretty painful as they are. If that is an example of how long it will take to do things, we will have challenges in the administration and definition of income tax.

You have at least hinted that we have a real concern that, because the Scottish Parliament will have tax powers, it will think, “Great—we can raise taxes.” We have all made the point that the implications of such decisions should be thought about. Around the world, small countries tend to be high-tax countries. I can honestly tell members that a significant number of our members would just run across the border if our economy became one with a high individual tax rate. That is not a threat; it is the reality. It will not be a place that people will rush to work in. There is a level and a balance in that. That has been well publicised before at certain points at the UK level, as well.

To refer to a point that Stuart Patrick made really well earlier, the IOD has been strongly against devolving corporation tax, but I suspect that I will have to hold back my members in Scotland from demanding that if it is devolved to Northern Ireland. There will be challenges if that happens. There is an issue there, as well.

We can understand the devolution of income tax. As Ross Martin said, it is personal. We all have a system and we all have a number already. A person will have an “S” at the end of that if they are in Scotland. That is relatively straightforward, but that in itself will take some time. To be honest, for bigger employers, there will be a relatively small entry on a computer system. For smaller employers, it will inevitably be a bit more difficult, but the system will be in place, and we can work on that.

By the time that the Smith changes come along, we will probably be able to make things work mechanically, but please do not make that a licence to raise taxes automatically.

Stuart Patrick: I go back to the comment that I made at the beginning that, during the referendum campaign, our members considered income taxes to be the most significant issue. Professor John Kay said that it would need 1,000 people to shift across the border to offset the impact that there would be of putting up taxes at the high end of the bandings. I certainly think that that number is not impossible. I do not know whether it is true, but it certainly feels realistic.

If you listened to some of my members, you would know that that could happen. It is relatively straightforward to run a business in Scotland under the 90-days rule for being in the country that is allowed for in the taxation regimes; indeed, I can think of several people who already do that, and it is feasible to consider that as an outcome.

However, the more important and worrying thing is the extent to which companies in Scotland would be able to attract talent from the rest of the country. That is much more difficult to assess, but it is potentially much more damaging for engineering companies, financial services companies and especially creative industries companies that are trying to attract talent from the rest of the UK.

10:30

Alex Johnstone: A number of you have mentioned the tax system’s complexities, but you have also referred to little bits of fine tuning that you believe would make a positive contribution to business development in Scotland. Is there not a danger that by allowing the system to diverge in the way that we have described companies working across the UK will find the field becoming more, not less, complex and that administering the single regime might become more difficult?

Ross Martin: To come back to the guiding principles of transparency, predictability and the desire for stability, the strong message from our members is that as long as the system contains those characteristics, and as long as there are no

shocks or any structural changes that might impact unduly on one part and have a knock-on effect on another part, changes to certain aspects of it can be dealt with. That kind of predictability and the drive for stability are the overriding concerns; changes to individual taxes, allowances or credits are just the meat and drink of systems, and companies and organisations are used to dealing with them both nationally and, for our members who operate in different fiscal regimes across the world, in federal schemes or whatever. That kind of balancing goes on all the time, but it must happen on the basis of a sensible relationship, sensible rules of the game and none of the shocks to the system that happen at the whim of incumbent administrations at any level. There must be agreement on the overriding aim—let us face it: the publicly stated central policy purpose of both Governments is the growth of and stability in the economy—and there should be the ability to come together and create the conditions that give us predictability and that level of reassurance.

Alex Johnstone: Let me get to the point that I was trying to make.

The Convener: I bet that the witnesses do not take as long to answer. [*Laughter.*]

Alex Johnstone: If we look at the general powers that have been devolved to Northern Ireland over a number of years—not over tax, perhaps, but over the welfare spend—we will find that, although a great many powers have been devolved to the Government in Northern Ireland, it has spent its time changing nothing and has instead tried to shadow the UK system

Tax powers are not a new thing for this Parliament; after all, we have had the power to vary income tax since 1999. In the past week, changes have been announced to the land and buildings transaction tax that is being brought in, and only yesterday we heard John Swinney talk at great length about how he wants it to be revenue neutral and about there being as little as possible deviation between the effect in Scotland and that in the rest of the UK. Are we not in danger of devolving under the Smith proposals a huge number of powers to the Scottish Parliament and the Scottish Government and then spending many years not using them to ensure that we do not create any differences?

Ross Martin: To be fair, all that we can do is make the case for any change, and then it is over to you guys.

The Convener: There you go; I asked for succinct answers. [*Laughter.*]

Alex Johnstone: You have no fears?

David Watt: To add to Ross Martin's point, that is what devolution is about. We work in devolved countries, so we understand. There is a potential genuine benefit from decisions on taxation being made more locally. Scotland is not London, and the UK is grounded a lot by London's activities. There is a strong argument for you and your colleagues determining a tax level that is different from that in London to attract people into this country to work, so why not? I think that lowering the tax rate would be brilliant for Scotland's economy.

On your point about there not having been much use of taxation powers in the recent past and whether there will be in the future, as you well know, there will be a compulsion to set the tax levers and then there will be a lot more thought and debate about it. We keep making the point that decisions that the Parliament makes have an economic impact. Business believes that the Parliament does not always think through that impact. However, you will have to do that, because you will be dealing with income tax. I hope that we will benefit from the results, but we could potentially suffer.

Alan Watt: I feel like a slightly worn record, but I return to what I said in my opening statement. In an industry that is dependent on the public sector and has a low margin, we are very sensitive to any change of direction. As we did in our submission to Smith, we urge caution in the introduction of any measures. We did not say that you should not introduce any measures. Perhaps we should have said more in that regard. By all means have the powers and then, at the appropriate time, consider using them.

Stewart Maxwell: Perhaps Northern Ireland has not made much of its powers on welfare because it has only half the balance sheet. If you do not have the revenue-raising powers, you cannot change much in what you do with, for example, welfare.

People of other small countries might be slightly confused by some of the comments that we have just heard. Do you think that the people of Norway and Switzerland are desperate to give away their tax powers because they have made such a mess of creating wealthy economies? It seems to me that they have done reasonably well when they have managed their own affairs. However, we seem to have an underlying belief that the transfer of powers to Scotland over a range of taxes would create a threat and that divergence would automatically mean a worse situation in Scotland.

David Watt: That does not reflect what I said at all.

Stewart Maxwell: Not at the end of what you said, to be fair.

David Watt: Nor do I feel that. Scotland can be fantastically successful. Regardless of the political system, business will thrive, survive and get on with it. However, if there is a high-tax economy with a lower-tax economy 100 miles away, that is slightly different from the situation in Norway, Denmark and Sweden. If we could all—

Stewart Maxwell: Some of those countries share borders.

David Watt: They share borders, but they also share pretty high taxation levels. I have just had a long conversation with and diatribe from one of our members whose wife is Finnish and who spends a lot of time in Finland. Just to cheer you up, he was a strong no voter because he does not want to live in a small high-tax economy. All those countries are small high-tax economies. That is not the IOD's view or necessarily my view, but there are potential ramifications to being a small number of people. However, let us park that, as it is the past argument.

Stewart Maxwell: Alex Johnstone asked about the threats. I want to ask about the opportunities that the devolution of taxes would bring.

David Watt: The key opportunity is exactly the one that I highlighted: that of bringing taxation closer to businesses and giving the Parliament the chance to make decisions locally that help the people of Scotland on taxation. Raising taxation levels will not necessarily make you very popular or help the economy or the people of Scotland.

Stewart Maxwell: We have heard from the panel about people fleeing across the border. We heard some of that nonsense during the referendum campaign. The parties that supported a yes vote were clear that we wanted to create an economy that was good for business. We wanted to grow the economy and create more wealth and opportunities and for that to be shared by the people of Scotland. That was the argument that we were making. Do you think that, if a basket of taxation powers—not just income tax—were devolved, a Scottish Government would not use that opportunity to invest in various areas to create wealth and opportunities for the companies that you represent?

Stuart Patrick: It is difficult to tell. Most of the focus of the early discussions about income tax has been on the 50p tax rate. That does not give us a sense that you will use a basket of powers to assist the growth of the economy.

Stewart Maxwell: But we do not have a basket of powers.

Stuart Patrick: It cannot come as a surprise if we sit here rather edgily at the notion of what that basket of powers would be used to do.

On the circumstances that you highlight, particularly regarding Norway and Sweden, I point out that we are not starting from the position that Norway and Sweden are starting from. We start from a position where values and assessments about the future are made by the existing population. In the business base, a fair number of people are concerned that taxes might go up, and they might act accordingly. Some of them are very familiar with the actions that need to be taken in order to manage that.

Doing that within the UK is dead easy. People can quite easily run a FTSE 100 company from Buckinghamshire, even though it is based in Glasgow. Many of the folks whose taxes you might increase might choose to do that. As I say, the point is not about the number of folks who make that decision; it is about the impact that that has on our ability to attract talent from the rest of the UK, on which we absolutely depend. I reiterate that we do not start from the same position as Norway and Sweden.

Stewart Maxwell: I am concerned about coming from the principle where, almost automatically—

Stuart Patrick: It is coming from your voices, talking about 50p tax rates.

Stewart Maxwell: I think that you will find that that is the policy that the Labour Party has been advocating, but—

The Convener: I think that Mr Patrick means in general terms.

Stewart Maxwell: I am trying to ascertain whether the witnesses believe that there are opportunities, which a Scottish Government would recognise, and that, if it had those tax powers, the Government would use them sensibly, not to damage the Scottish economy and Scottish business but to try and help Scottish business to grow and to help create employment. That seems obvious to me.

Stuart Patrick: It is conceivable, but that is not coming across in the current discussions.

Ross Martin: I will follow on from what Stuart Patrick has been saying. I want to differentiate between what could have been the case if the referendum result in September 2014 had been different and what is the case at the moment. We are talking post referendum, and the Smith commission was a result of that. The context is that Scotland is still part of the UK, and our submissions, and the discussions with our membership, were all on that basis.

We have all made it clear that we want more flexibility and more diversification of the system. We want powers for a purpose, if I may use that phrase. I could also drag in the old word

“subsidiarity” and the point about levying a tax in the area of impact. We have all given examples of where we think that is appropriate. We might not agree across the board on each example and, collectively, those examples probably add up to a lot more than what each of us individually would say, but we have all given examples of where we think that flexibility is appropriate, would have a positive impact economically and would create opportunity.

The Convener: We will move on to a question from Stuart McMillan on APD. Mark McDonald also has an interest in the subject.

Stuart McMillan (West Scotland) (SNP): I have read your submissions, and I am keen to get a bit more information about the rationale behind your positions on APD.

David Watt: It is pretty simple, in fact. Currently, 8 per cent of Scotland’s companies export—and 8 per cent is not a glorious figure. Every single tool that we can use to help companies to look for exporting opportunities and to work abroad is very beneficial to this economy and to those companies.

In simple terms, those who have to fly out of Scotland through London to get to other places, as many of us have to do, are paying taxation twice. We would like there to be direct flights, of course—that is our number 1 priority—and the Government and the airports have worked very hard on that, which we applaud. Ultimately, however, it is expensive. At the moment, if I fly out of Edinburgh, as I will do shortly, I will pay more to the UK Government than I pay to Edinburgh airport, which does not seem a good use of my money. There is a real challenge regarding the cost to businesspeople—it is very expensive.

10:45

I might have my figures wrong, but someone who travels business class to China to do business, as so many businesses are encouraged to do, pays £250 in taxation to get there, which is a lot of money. If they are trying to cultivate links in China, they will go there five or six times before they get any money back or even have an agreement to do business. That means that a lot of money is going to the Government. We think that the Scottish Parliament has to recognise the challenges in that regard.

We are geographically remote. A number of years ago, I flew with an airline that has now departed, but which started direct business class flights from Scotland to Munich. I remember sitting in the Munich chamber of commerce saying, “Look at this fantastic map of Europe. You’re right at the heart of it.” However, Scotland is not at the heart of Europe; we are right at the extreme. Flying is a

massively important part of doing business in Scotland and it always will be, regardless of our environmental challenges. Bluntly, we must make flying as cheap as possible.

Ross Martin: Just to follow on from that point about Munich and Bavaria, the Bavarian figure for exports is roughly 10 times ours. Clearly, it has the connectivity issues broadly right. Air passenger duty is probably the tax with the least evidential basis for its introduction and, even in its short life, it is probably the tax that has been increased most. Since its introduction in 2007, it has been increased on short-haul flights by up to 160 per cent and on long-haul flights by between 260 and 360 per cent, which are enormous increases.

People talk about the low marginal cost of APD but, as David Watt said, it is a huge cost for personal business travel and a massive barrier to people getting out and selling around the world. We are very clear about the need for a reduction in APD and its eventual removal. Whether responsibility for APD is transferred to the Scottish Parliament does not really matter; the tax itself is the key aspect.

Stuart Patrick: We agree entirely with what David Watt and Ross Martin have said about the locational issues with regard to APD, which make Scotland different. We depend more on air travel and hubbing than those who fly out from, say, Manchester.

Another aspect of APD is the extent to which it makes it difficult to attract airlines to invest in routes from Scotland, because it has an impact on the rate of return, and airlines will assess that in deciding whether to set up a direct flight. David Watt is right that the most important thing for us is to get as many direct flights as possible, but we know full well that that is difficult because we tend to be quite low down on the list of priorities for international airlines, which are expanding their activities in developing markets. We want to get a Chinese airline into the UK, and APD is just another aspect of the rate of return that any such airline would calculate.

Stuart McMillan: APD came up twice yesterday in Parliament. During transport questions in the chamber, my colleague Willie Coffey asked the transport minister how Prestwick airport could help the Ayrshire economy, and during the Finance Committee's meeting, the Confederation of British Industry stated that APD should not be devolved. Given the comments that the panellists have just made, surely the CBI is out of touch with the economic situation here.

Ross Martin: Far be it from me—

The Convener: Go for it, Ross.

Ross Martin: I will not mention those three letters, but I will mention the other three—APD. [*Laughter.*]

Across the whole economy and among everybody who interacts with the transport system, there is a recognition that APD has a disproportionate impact in Scotland. We need to start with a sensible discussion with the Treasury about that impact and about whether a relative change in Scotland can be effected regardless of whether power over APD is transferred to the Scottish Parliament.

When the chancellor gave evidence yesterday to the Treasury Select Committee, I think that he said that some work had been done on the impact on Newcastle and Manchester if APD was abolished in Scotland. It has been predicted that that would have a 3 per cent impact on Manchester, which is—in the chancellor's language—manageable, and a 10 per cent impact on Newcastle. Obviously, there would have to be a mechanism by which Newcastle was given a measure of support.

From our discussions with the UK Government, we believe that it is alive to the issue. If APD can be reduced and abolished even quicker under the current arrangements, without going through the transfer of powers, that will be all the better, but if it will take devolution, we will be willing to look at that.

Alan Watt: Again, I am the tail-end Charlie, but for reasons of geography and trading we believe that APD should be devolved.

Stuart McMillan: Should it be devolved immediately?

David Watt: It should be devolved as soon as possible. I would like the tax to be abolished as soon as possible, although whether that is feasible is a different story. We are not supportive of APD. It damages business—there is no question about that—and it is expensive, as I pointed out.

The Convener: Duncan McNeil has a supplementary question.

Duncan McNeil: I suppose that my question is related to the nature of taking a single issue and not connecting it up to everything else, which happened last week with welfare. APD is a single issue that is important for business—it has been for some considerable time. However, if there is less tax take from APD, that will have implications for what we have to spend on construction and welfare.

We are in an unreal situation. Last week, we said that we wanted to maintain or increase welfare spending, and we want a living wage. This week, we want to cut taxes and increase the opportunity to borrow more and invest in R and D.

We cannot do all that. We cannot cut taxes here, there and wherever and maintain the welfare budget, increase R and D spend or, indeed, pay for increased borrowing.

The Convener: How do we square the circle?

David Watt: Absolutely you can do that. That is how you run a business. You increase your income by having more people in employment. If you get the 360,000 people in Scotland who are distant from the workforce into the workforce they will pay tax and so you can spend more tax. That is how it works and that is what we need to do in this country.

You will probably all disagree with me on this point. Duncan McNeil just mentioned the living wage. The Government needs to look at how much money it is taking from people on the minimum wage and the living wage before it starts telling business to pay higher wages. There are some issues about the money that we spend in the public sector, to be honest. There is another big debate to be had on that.

Ross Martin: APD is an isolated example and can be treated as such because there is no basis for it other than a tax grab. The whole point of our submission is that APD is a huge barrier to growth, so if we can remove it we can grow the economy. We think that APD is a particularly strong barrier, so its removal would have a balancing effect, although it might not balance things entirely.

Stuart Patrick: Our strategies at the national level identify areas that, on the whole, we think have an impact on our growth rates and productivity. Exports and R and D happen to be two of those. It is not as if these discussions are happening without the context of a properly thought-through strategy. I admit that, earlier in my evidence, I said that we do not know whether we have all the answers to the problems that we have been discussing. However, at the very least we know that the relationship between APD and exports is extremely close, so I would argue that, as Ross Martin says, APD can be treated in isolation.

Mark McDonald: I note that in its submission the Institute of Directors talks about the oil and gas fiscal regime, which is topical—it generally is topical, but it is topical all the time in the north-east of Scotland. Ross Martin mentioned the 2011 situation. In the current situation, one way to protect against job losses is through the introduction of key fiscal measures. For example, exploration credits, which Norway introduced in 2005, have been mooted.

In the submission, the Institute of Directors suggests

“a Scottish input to the tax on oil receipts”

and the oil and gas fiscal regime. Will you elaborate on how you would envisage the Scottish input working?

David Watt: To some extent, you have answered your own question. This relates to a point that I made earlier. I genuinely believe that it is beneficial for taxation to be closer to the business operator because that allows them to understand what is being done and it allows sectoral input. Oil and gas is a classic example of that.

To be honest, I am not sure how the mechanics would work. That would need to be teased out in discussion. However, we have a classic example at present. If this Parliament had powers—or even, to be blunt, more influence—over the tax regime for the North Sea, the regime would change much more quickly. There is a chance that the chancellor will do something in the budget, but my view is that he should be doing it today. I think that, if this Parliament had the powers, regardless of the party in power, it would be doing it right now. I believe that the Scottish Parliament should have that input.

On whether we should go as far as actually having the matter devolved, I personally believe that we should. Oil and gas is a very specific area. It is hard to think of another such area. With renewables, we have predominance, but it is still strongly UK based. Our oil and gas industry is very much Scotland’s baby, if you like. Scotland has to look after it and nurture it, and it should have very real input.

I would be in favour of Scotland having the sort of taxation powers that you suggested, which have been flexed in other countries. They would reside well in this Parliament, and I think that they would be well handled for this particular industry. I am not sure whether the model could be followed in other places or other industries, but oil and gas is a classic example at present, as I said. To be blunt, and if we are honest, it is 90 per cent of Scottish industry.

Ross Martin: Where powers are not transferred but are retained, the Scottish Government needs to have input to discussions, for example on decommissioning. At present, there is no mechanism for the Scottish Government to have input to the discussions on decommissioning relief deeds. There needs to be a mechanism for that.

The Convener: We will continue this conversation for a little while, because a few members have supplementary questions. I call Lewis Macdonald, who indicated first.

Lewis Macdonald: My question steps back a little from oil and gas, important though that is, so you might want to call other members first, convener.

The Convener: I will call Alex Johnstone and then Tavish Scott, both of whom have questions on this specific area.

Alex Johnstone: I think that we both put our hands up at the same time.

My question is on devolution of the oil and gas tax regime. The reason why that has not been proposed is that, if we look back, historically, the volatility in the potential tax take in that area has been enormous. Twice in the past six years, we have seen the oil price drop. It has dropped from \$130 or \$140, in some cases, right down to \$35—I think that that was the price six years ago. It is currently hovering at just under \$50. Surely that enormous volatility means that, if the power was devolved, we would need a parallel borrowing power with the same scope to cover that volatility. If tax powers over the North Sea were devolved, how much would we need in borrowing powers to give us continuity?

David Watt: I find myself in the embarrassing position of being a spokesman for the SNP. If I was in business and I had a little money coming from oil and gas, I would not spend it all as it came in. I might protect the country against the volatility, as other countries have done. Although that happens to be a party policy, it is made not as a party-political point but as a business point about how we spend money in government in this country. We just assume that oil and gas will constantly bring in money when it is clear that it will not. You say that, because of the size of the UK, we can accommodate that. We will find out how that goes over the next year or 18 months as the chancellor deals with the falling tax take that he will have.

The point that Ross Martin made about the outcome of the volatility changes is valid, but my point is that the Government should react more quickly to them and do something. To be blunt, it seems that Westminster has not been reactive enough. It might be taking the pain, but it is not doing the things that it has to do.

I know about the situation in 2011: the industry was not horrified that it was taxed; it was horrified that it was not told about it. When it was taxed heavily the previous time, when Gordon Brown was chancellor, he told the industry that he was going to do that and it had the best part of a year to prepare for it. In 2011, the industry was horrified that it was not told what was to happen; now it is horrified that there is no working with the industry to get through what it thinks is a relatively short-term problem, although BP now says that it thinks that it will last for three years. There is no working with anyone—that is the problem.

The argument for not devolving control of tax powers over the North Sea is that the impact on

the Scottish budget would be massive. I am not saying that all the tax income should necessarily be devolved, but the Scottish Parliament should certainly have an input into consideration of the taxation levels, because it is closely engaged with the oil and gas industry.

11:00

Ross Martin: We certainly agree that the income should be spent more wisely than it was in the past. That is why we emphasise tax reliefs and tax credits as a way of supporting infrastructure projects. If that had happened in the past, Aberdeen would have had a mass transit system linking the key economic areas of the city—the airport, the university and the port. I hope that that can be put in place at some point in the future.

We are not arguing for the devolution of the fiscal regime. The press had a bit of fun with the point that the governor of the Bank of England made earlier this week, but the point about balance in the UK economy and its ability to withstand shock is a point well made. There are aspects of the discussion that Alex Johnstone highlights that our members would agree with.

Tavish Scott: I have two questions on the evidence that has been given, the first of which is for Ross Martin. The Smith commission report contains a lot about intergovernmental relationships, so I hope that you accept that your point about decommissioning could be addressed by the strong work that I can say without fear or favour that John Swinney and Michael Moore did on putting that into the Smith agreement. There is solid stuff there in relation to decommissioning and how the Scottish interest would be taken into account.

My second point is for David Watt. When I met BP's North Sea boss in Aberdeen on Tuesday, he said that it is not just the tax regime that is the issue—I agree with Mark McDonald on that. Supplier costs and internal company cost structures are important, too. There are three legs to the stool of what needs to happen in the North Sea to make sure that our industry is competitive in the future. I hope that you accept that although the tax regime is fundamental—I agree completely with what you said—there are two other legs to the stool, on which progress also needs to be made.

David Watt: As a representative of the Institute of Directors, I always have to make the point that we do not support outrageously high wage levels for company directors or anyone else. The fact that our wage levels appear to be about a third above those in the Norwegian industry is not a healthy situation. Many people saw what has happened coming. The high wages in the industry have not always had good impacts—I say that as

someone whose son had to move out of Aberdeen because he could not afford to buy a house there, so I know very well what the impact has been for many people.

I am not defending that situation. To put it bluntly, change was coming anyway. Your point is valid in that respect. Sadly, the result has been job losses and salary cuts for many people. If a more thoughtful approach had been taken as wage levels developed, we might not have found ourselves in the situation that we are in. Cost is a big issue, too.

I strongly support Ross Martin's point. One reason why I made my comments about the North Sea in our submission is that, when I gave my draft submission to the members of my Aberdeen committee, they were jumping up and down about the fact that I had said nothing about the oil and gas industry, which is massively important to this country. To a degree, they feel ignored.

The point about infrastructure is valid, too. Members of the Aberdeen committee are jumping up and down about the fact that it is not possible to take a train to Aberdeen airport—people have to take a bus—and, to go back to APD, we do not have a direct flight from the oil capital of Europe to America. Strange things are going on. A lot of that goes back to how the money has been spent, on which I gave Alex Johnstone a hard time. We have not spent it on some of those things, as he knows all too well.

Lewis Macdonald: The Smith report contains agreed recommendations for devolution. It also includes seven additional issues, one of which is a fresh talent initiative for graduates, on which the two Governments should work together. It says that the two Governments should work together across a range of areas and that joint working and accountability to Parliament need to improve.

I was struck that the SCDI submission reflected 50 years of concern about the regional balance in the United Kingdom, by which I mean the balance between the city regions and that between Scotland and the north of England on the one hand and the south of England and London on the other. That issue is clearly still with us.

We have just heard about the issues that the oil and gas sector faces and how important that sector is. I am interested in hearing the panel's views on what can be done now, in the context of the Smith agreement, by joint working across the UK to address the regional imbalance. Better joint working with the north of England was mentioned in one or two submissions. The strategic corridor from Aberdeen to Newcastle is critical to many economic activities in the northern half of the island. What more can be done between Governments and between central and local

government to strengthen the economic links and rebalance the UK?

Ross Martin: Our membership looks in on the Scottish Parliament and Government, the UK Parliament and Government, and the relationship between them. We see instances such as the Scottish Affairs Committee, which could meet here and be more accessible. The Prime Minister is in Edinburgh today, but he is not in the Parliament building.

Alex Johnstone: He will be.

Ross Martin: Yes, but he is not making his announcement here.

We see a lack of co-operation and a lack of maturity in the relationship between the two Governments and Parliaments. When we look in from outside, that just looks weird. A big issue is about the symbolism of that and the message that it sends about the willingness of both Governments and Parliaments to work together.

There is a symbolic issue, first and foremost, and there is also the practical, day-to-day aspect of the relationship and whether we are in the territory of undoing 50 years—or, in the words of Richard Leese, leader of Manchester City Council, 100 years—of centralisation. If we are in the game of decentralising and deciding whether it stops here or goes further out to the city regions, that is fantastic. Our membership would support decentralisation if its impact was measured and recognised, and if there was evidence that we want to move in that direction, but not if it was decentralisation for the sake of it.

Stuart Patrick: We are overcentralised but, equally, we have to deal with overcentralisation to the global city of the world. London is an unusual city. It is not a question of talking about Germany, Italy or France. We have to deal with a strange set of circumstances. London and New York battle with each other to be the most successful city in the world and that adds to the challenge of regional development.

As a consequence, we welcome the move from the Scottish and UK Governments to support a Glasgow city deal. That was part of a general move around the UK to look at devolving powers to regions that reflect local economies. The important part of that overall deal is that it is about city regions and not just central cities. We are looking at having to change the structure of government or arrangements within the city regions to implement that devolution, which is a helpful move. Manchester is well ahead of us on that.

There are other examples of how the interaction between the UK and Scottish Governments could improve over time. It is useful that the Scottish

funding council and the Technology Strategy Board—Innovate UK—are beginning to look at complementary decisions that reflect the UK's research base and the extent to which universities work together to exploit technological improvements that cut across borders. That is beginning to show signs of improvement.

One area where I am sure that there is more to do is between UK Trade and Investment and Scottish Development International, where there has been a notable lack of joint working. We work closely with UKTI because we do trade certification. We do not work so closely with SDI because we do not do as much in the way of trade missions and so forth. However, it is notable that the two organisations have very different approaches to life. They use infrastructure that could be much more easily shared, and that would help to tackle one of our biggest challenges, which is accessing export markets.

David Watt: I absolutely support that point, which was one of the key points in Brian Wilson's review of support for Scottish exporting. The review is useful and we should all adopt it and follow it through. He gave examples of good co-operation and examples of a lack of co-operation, which I have experienced and which is not helpful at all.

Infrastructure—particularly for broadband—is another area where there has been UK Government input. That is helpful, but there could be more. As the committee is aware, the Smith report says that the Crown Estate is significant. However, I re-emphasise the role of bodies such as the DWP, Jobcentre Plus and BIS. The latter's seed enterprise initiative is a great scheme that is little known in Scotland. We need to work on that, too.

As I said, there are faults on both sides. There are many areas in which it would be beneficial to this country if we worked better together.

The Convener: Linda Fabiani has a question.

Alex Johnstone: I have a welfare question.

The Convener: I will take your question first.

Alex Johnstone: Welfare is an unusual issue to raise with today's witnesses, but we have discussed it with a lot of other people. It is said quite often in this Parliament, when we talk about those who are on low wages, that the welfare system is in effect subsidising companies to employ people on low wages. We have people talking about proposals that might suggest that we in Scotland can increase taxation and the level of benefits. Is there a danger that that might further subsidise low wages in the Scottish economy?

David Watt: My answer is no. As I have mentioned a couple of times, the then Deputy First

Minister invited me to sit on her welfare reform group, which I was happy to do, although I did not sign up to the premise of the phrase "in an independent Scotland".

I have two things to say about that group. First, I learned a lot in the group, because many of the presentations that we were given did away with some of my prejudices about welfare. I recommend the group's report. If members have not already read it, please do so. It is genuinely important and contains lots of interesting information that is relevant to Alex Johnstone's question on welfare.

Secondly, I wanted to be involved because I see a crucial link between welfare and work. The number 1 thing that most people want is a job and the sense of being that they get out of that job. That is really important. We should be using a welfare system—a benefits system—to get people into the workplace. We should not see the two things as different. If I am honest, there is not an easy connect at the moment between some of the systems.

I understand that the UK Government is trying to help. I am not negative about its efforts to help, but the problem is that it is starting with a system that is arguably broken and is trying to mend it. In some ways, it would be nice if we could start at square 1 and not have a system, but that will not happen. We have to work with the system that we have and develop it into something that works to get people back into work gradually, and we have to stop silly things such as people having to say, "I can only work 16 hours." I constantly get employers saying to me, "I want to employ this person for longer but they will lose all their benefits." People will lose not only their working tax credits but their council tax relief and other—

Alex Johnstone: That is what universal credit is all about.

David Watt: I know. In essence, the idea is simple. The problem is the switchover. People are getting caught in the middle. If I am honest, we probably do not have enough people for the switchover. It is not for me to suggest that we should employ more people in the public sector, but perhaps we need more people at the moment, for a changeover that might in the longer term work for some people.

The fundamental thing that employers value is the relationship. They need a simple system that encourages people to work, even if it means gradually getting into work. Only a couple of weeks ago, an employer said to me, "I've got a cleaner who works for me. She probably isn't earning a lot of money. She wants to work more but she can't." That is a ludicrous situation that we have got ourselves into. We have to stop that. I

am not blaming anybody—it is just where we are now and we have to sort that. Can we provide better support in Scotland? We possibly can, but we can do so only with cohesion.

11:15

Another point is about the role of SDS. All the evidence that I have heard is that the number 1 reason for people being on low wages is low skill levels, to put it bluntly, so if we upskill people, they will not be on the minimum wage or the living wage—they will be beyond that level. We cannot disassociate that point from SDS and its role with Jobcentre Plus and business gateway, as well as the role of all the other organisations in working together to help individuals to get to a point where they are nowhere near the minimum wage.

If the Government really wants to help people on the minimum wage, it should stop taxing them. If it wants to help people on the living wage, it should stop taxing them when they earn that sort of money. Do not blame employers—stop taxing those people. Why are we taxing people at 20 per cent on money from £10,000 to £30,500?

Alex Johnstone: Absolutely—I could not agree more.

The Convener: I know that both Duncan McNeil and Tavish Scott have issues about the role of the Parliament, so I need to get them in at some stage. First, Linda Fabiani will raise an issue that is related to the current discussion.

Linda Fabiani: In its submission, the Institute of Directors stated that it wanted the Smith commission to

“Facilitate economic growth, while promoting economic and social fairness”,

which ties in with what David Watt has said today. I have no reason to believe that that is not the mission of everyone who is involved in the process and, indeed, of most people in Scotland. My question was going to be about whether you think that the package that has come out of the Smith agreement could help to promote both those strands. However, since thinking of that question I have received a note of some of the things that are in the heads of agreement and the draft clauses that have come out today, and there are a couple of things that I find concerning and would like your views on.

First the UK Government seems to be maintaining a veto over changes to welfare, for example, and there are issues about additional benefits. The other thing that may be quite concerning, given our earlier conversation, is that it looks as though capital grant is to be replaced by borrowing powers rather than augmented. Could I get a quick reaction to those points?

The Convener: That information has obviously come from an outside source, but do the best that you can with that new information. I know that that is not easy.

Ross Martin: I do not think that we are in a position to respond to those points, but I can respond on the context for that question.

As an organisation, we come at the whole debate from the economic perspective and we look at the impact on the economy. On the issues that Alex Johnstone and Linda Fabiani have raised, we are asking what the barriers to productivity, innovation and internationalisation are. Clearly, pegging somebody to 16 hours is a barrier to productivity. If somebody wants to work more and they are a productive person, we are limiting their productivity as an individual and limiting the productivity of the organisation that they work for. That needs to be recognised as a barrier in the same way as a poor childcare system is a barrier to work and productivity. We exclude a huge section of our population from productive work because we do not have in place an accessible, affordable and flexible childcare system, which is why the SCDI is working with Children in Scotland and the Childcare Alliance to look at such a system and work out whether we can drive that from an economic perspective.

From the SCDI’s perspective, the most exciting aspect of the white paper by far was that it took what was previously seen as a social policy drag—the cost of childcare—and rammed it up front and centre as an economic driver. There was recognition of the need to bring together that social policy agenda and the economic agenda. That symbolises the journey that this Parliament is on in terms of Smith and the other side of the balance sheet. It is about taking the social policy agenda and the economic agenda and trying to understand the impact of one on the other instead of looking at them in isolation. There are a number of different examples of barriers to productivity that fall into that category.

Stuart Patrick: I will add something on the context, with reference to the locale that I know best. I have two points to make on the earlier comment about skills and the extent to which the system supports the attainment of skills so as to achieve a good living wage.

The Centre for Cities report, which comes out every January, consistently highlights a challenge that is faced in the west of Scotland. Although we have high levels of high skill—based on the proportion of the population with graduate-level degrees, Glasgow is eighth out of 64 cities in the country, and other Scottish cities are near the top of that list—Glasgow is also near the bottom of the list when it comes to those with no skills at all. A lot of the powers are already in place to tackle that

problem, but we still have not managed to do so. Therefore, I am not sure that the Smith commission debate is getting to the heart of that issue.

I will add an aside on the more general comments about welfare. Throughout the referendum debate, one of the reactions to the whole discussion that I found among our membership was a raising of the issue of the living wage where, previously, there had been a knee-jerk response to say, "We don't really fancy that because it could add costs that we don't want." Quite a different attitude is developing now, with employers thinking that the living wage might be an important part of the success of their companies. For a long time, some companies have said that the living wage is part of their competitiveness package—it is how they attract people into their business and how they grow the productivity of their firm. On Monday, our council of directors will make a decision on whether to open up a full review of our position on the living wage, which I think would be beneficial for the future.

Linda Fabiani: I hope that we can all work together to achieve what we all clearly want.

The Convener: In the time available to us—about eight minutes—I would like to have a discussion about the role of the Parliament.

Duncan McNeil: When the Parliament's procedures were set up in 1999—and prior to that, within the consultative steering group, many of whose members are still around—the decision was that it would be different from Westminster, and we are living with that decision in all its shapes and forms. Given additional welfare and taxation powers, will the Parliament be able to provide sufficient scrutiny? Is it up to the job of taking on those responsibilities, and how do we need to change to ensure that we can provide that scrutiny, oversight and governance?

The Convener: There is a cracker.

David Watt: That is a good question. This is not an IOD position, but one thing that I have heard a lot in general conversations with a lot of learned people around the country is that the unicameral system was always going to work as long as we had a coalition Government, but now that we have a majority Government it is difficult for it to work as well and scrutiny is an issue. In practical terms, from a business point of view, as Stuart Patrick mentioned, one thing that concerns us about all the changes—it is the basis of our discussion today—is the economic impact on business of the decisions that the Parliament makes and how we can know about that.

Is there an economic assessment of the exercise of the Parliament's powers? Sometimes

there is not. I suggest that there should be some sounding board such as a business advisory body to do that—I am not sure whether the Council of Economic Advisers serves that purpose at the moment. In my experience, the issue seems to go back and forward between different parts of the Scottish Government. Everybody writes a big, long paper, which everybody just about reads, and they then send another big, long paper back. If that is the body responsible, it needs much more power and more teeth, but somebody needs to look at the economic impact and the outcome of the Parliament's decisions. That is the issue from a business point of view. Whether that requires a restructuring of committees or another chamber is way beyond my pay grade.

Stuart Patrick: I reiterate a point that was made at the very beginning of the meeting, which David Watt has highlighted. Some form of standing group that has a business advisory role—to advise not the Government but the Parliament—might be useful as you go through all the content of the Smith commission's report and any other developments that occur as a result of it. We could not begin to tell you how that would work in practice, because we are no experts on the systems and management of the Parliament, but we think that the Parliament, as well as the Government, needs that kind of support.

Ross Martin: One of the major points of engagement is the business in the Parliament event, which is not all that it might be. Work could be done to shape a better relationship. In the wider sphere, the national economic forum is beginning to show signs of usefulness and purpose, but there is still some work to be done on that as well.

Tavish Scott: On the theme that Duncan McNeil has raised, the SCDI's submission states:

"Committees of the Scottish Parliament need to display the same independence from party politics and forensic analysis which characterises the best of the committees in the UK Parliament, especially at times of majority government, either by a coalition or a single party."

Is it a matter of mechanisms or people? Are we to blame?

Ross Martin: By and large, you have today demonstrated independence of party, and the engagement has been on the basis that we would expect. However, the Parliament is a young institution and it will take time for it to develop its own character, its own way of working and its relationships with others.

When we ask our members for their views on the Parliament and parliamentarians here, they say that you do not have enough incentives—that the framework does not allow you enough incentive to focus on economic issues. There is an

issue to do with the context in which you live. I hope that one of the central results of the Smith transfer of powers will be a better framework in which to operate and more incentive to focus on the economy and economic growth.

David Watt: I support that very much. This sounds really sycophantic but, generally speaking, the committees that I have been in front of have been very sensible and non-partisan in their approach—I can genuinely say that.

On the whole, MSPs are fantastically accessible to local businesses. In my experience of the Scottish Parliament, ministers in Governments of every political hue—including Tavish Scott and Bruce Crawford—have been very accessible, which has been fantastic. Their approachability and nearness to business have been really helpful. Listening to what businesspeople—real businesspeople, not people like us—think is really helpful in developing economic policy. However, as Ross Martin says, if you had a little more power over economic development and could flex your muscles more, you could have more local impact as well.

Alan Watt: Again, I speak as the representative of a sector that is very dependent on the Parliament. We have great faith in the Parliament's ability to deliver on our agenda, and we are very happy for it to get further powers to use in a gradual and measured manner.

The Convener: That was some positive stuff.

Duncan McNeil: Yes. Maybe there will be a discussion about this among politicians in the Parliament. In committees, members have numerous responsibilities as legislators and inquisitors in inquiries to develop policies and review legislation, for example. I think that we are struggling to fulfil all those roles.

If we are going to have more powers, what should our focus be on? That is what I am trying to get at. We are perhaps attempting to fulfil too many roles and are not fulfilling them well enough. Maybe we should prioritise other areas.

The Convener: That is a big question. If it can be answered quickly, that is great, but I recognise that that is a journey that we will have to begin. We will have to get our teeth into that.

Ross Martin: The answer lies in a central thrust from all of us throughout this evidence session. The decentralisation down to city region level and to the islands, for example, should free up some of your time and allow you more space and scope to take on some of the other responsibilities that you are getting.

David Watt: That is where the business advisory group, for example, could help you rather than cause you more work. I have been nice to

politicians. A politician should listen carefully as well. That takes up a lot of time, but people will tell you things that are very helpful.

The Convener: We have done a lot of listening today, and the insights that you have brought to us have been very helpful in our deliberations. I am very grateful to you.

I remind members that our next committee meeting will be on 5 February, when we will begin consideration of the UK Government's draft clauses with evidence from a range of taxation practitioners. We will meet next week, on 29 January, for a private briefing on the technical issues around the clauses.

Will those who have not had the opportunity to respond on the visit to Hamilton please respond to the clerks as soon as possible?

I thank our witnesses and our visitors from Canada, who have listened to our proceedings.

Meeting closed at 11:30.

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