



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Wednesday 7 March 2012

Session 4

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FINANCE COMMITTEE

8th Meeting 2012, Session 4

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Gavin Brown (Lothian) (Con)

*Mark McDonald (North East Scotland) (SNP)

*Michael McMahon (Uddingston and Bellshill) (Lab)

*Elaine Murray (Dumfriesshire) (Lab)

*Paul Wheelhouse (South Scotland) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Marco Biagi (Edinburgh Central) (SNP)

Donna Bell (Scottish Government)

Paul Bradshaw (ScotCen Social Research)

Jim Cuthbert

Margaret Cuthbert

CLERK TO THE COMMITTEE

Jim Johnston

LOCATION

Committee Room 5

Scottish Parliament

Finance Committee

Wednesday 7 March 2012

[The Convener *opened the meeting at 10:00*]

Decision on Taking Business in Private

The Convener (Kenneth Gibson): Good morning. Welcome to the eighth meeting in 2012 of the Scottish Parliament's Finance Committee. I remind all those present to switch off phones, pagers, BlackBerrys and so on.

Agenda item 1 is to consider whether to take item 5 in private. Are members content with that?

Members *indicated agreement.*

“Using Our Buying Power to Benefit Scotland”

10:00

The Convener: Under item 2, we will take evidence from Jim and Margaret Cuthbert on their report for the Jimmy Reid Foundation, “Using Our Buying Power to Benefit Scotland—the case for change”.

I welcome Jim Cuthbert and Margaret Cuthbert and invite them to make a short opening statement.

Margaret Cuthbert: Thank you for inviting us to talk about our findings. The report that we wrote for the Jimmy Reid Foundation considers the estimated £9.2 billion annual spend by devolved agencies in Scotland—central Government, local authorities, universities, police, fire, health and other bodies. There have been a number of reports over the years on issues such as how efficiently that money has been spent and what cost savings have been made. We examined whether that spend helps or hinders Scottish economic and social development.

Our report is not based on anecdote. As you know, there are many statements in the press saying how one area or another has lost out. We have done a lot of work on private finance initiatives, Scottish Water, the procurement Scotland initiative and various relevant agencies, and we have gone into the detail of several hundred contracts.

The report's findings are that the process of public procurement is not working satisfactorily from the perspective of Scotland's economic and social development. In particular, we believe that there are significant barriers to participation by small and medium-sized enterprises. A large amount of public procurement in Scotland—that is, devolved expenditure—goes to large firms that are headquartered outside Scotland.

Jim Cuthbert: That raises the question of why things have gone wrong. On one level, we now have an overconcentration on large contracts and on general contracts of a type that does not necessarily suit small specialised firms. There has been a failure to maximise the potential of what is possible under the European Union procurement directive. There has also been the problem of the legacy of the McClelland report, which had cost saving as its primary focus and, we would argue, had an inadequate focus on wider strategic implications.

There is also an issue about the potentially misleading figures that emerge from the systems that have been set up to monitor how procurement

is operating. In the report, we discuss in detail why the much-touted figure that 75 per cent of contracts are awarded to SMEs is not soundly based.

At another level, there is the question of why this situation has arisen. It is much more difficult to be firm about that; we can really only speculate. Possibly, there has on occasion been too much concentration on financial engineering. Further, there is a lack of in-house expertise in the public sector, which has made it rather too reliant on partnerships with large external firms.

The report is not intended to be critical, or overly critical. We have tried to strike a positive note. We have given quite a bit of credit to things that have been done well and successful initiatives that have been taken. Above all, we have tried to make positive and specific recommendations, which I will not outline now, but which you will no doubt wish to address in the course of our discussion.

The Convener: Thank you for that opening statement. As is traditional, before allowing other members to ask questions, I will ask some of my own.

You have concerns about the number and value of contracts that go to SMEs. I understand that about 75 per cent of contracts that go out through the public contracts Scotland procurement site go to SMEs, and that that represents about 45 per cent of the value whereas, in England, the aspirational target is only 25 per cent. Although there is always room for improvement, surely the situation in Scotland is better than it is south of the border.

Jim Cuthbert: We are probably doing better than south of the border, but that is not saying much. One section of our report highlights a report that was produced for the EU that considered factors that bear on SME participation across Europe. As that chapter makes clear, the position in England is that its contracts are among the largest in the EU, and its level of participation by SMEs is among the smallest. The fact that we may be better than England is not a great deal of comfort.

The report examines in detail the status of that 75 per cent figure. I will quickly run through some points about the monitoring system. The definition of an SME that is used is a business with 250 or fewer employees, which is the standard EU definition. However, given that 99 per cent of companies in Scotland fall into that definition, it is not meaningful to headline that figure for Scotland. Secondly, the size of the company is as self-reported by the company when it registers its data, so there is no way of knowing the accuracy or consistency of the reporting of that size. There is no way of knowing whether the companies are

Scottish; we only know the address that the company recorded in the registration system, which means that we cannot tell whether, for instance, the SME in question is a branch of a larger concern. For example, a two-person Siemens office in Leith would be viewed as being a Scottish company.

There is a range of issues about the monitoring of framework agreements. As you will be aware, framework agreements feature a contract that will last up to four years. A number of companies successfully tender for the framework agreement and, thereafter, public bodies may approach those companies and call down the specific supply that is covered by the framework agreement. The framework agreements that are set up outside Scotland are not covered by the portal, nor are individual call-downs from the framework agreements. Therefore, the monitoring system has limited and potentially inaccurate information relating to the operation of framework agreements.

The report lists a range of other factors that bear on the interpretation of the 75 per cent figure that, to our minds, mean that it is not soundly based. The report recommends that there be a research exercise that takes a sample of firms and looks at factors such as their size and ownership status and relates those factors to how they are recorded in the database. Until that kind of exercise is carried out, it is not really possible to put much reliance on the 75 per cent figure. It is also relevant to point out that one of the European studies that we mention, which was examining the factors that had played a part in the success of a sample of firms in getting contracts, had to validate the data, because the size variable—which is, essentially, the sort of size variable that we have in our monitoring system—was not accurate enough to use as it stood.

The Convener: I know that you have concerns about companies that are not headquartered in Scotland, but there are many companies—the Royal Bank of Scotland is an obvious one—that are headquartered here but do most of their business outside Scotland. Although having headquarters in Scotland is significant and important, and we would like as many companies as possible to be headquartered in Scotland, the fundamental point in the issue that we are discussing is where the work is actually done. Do you agree?

Margaret Cuthbert: There are several issues in that. You are right that we have companies that operate outside Scotland, and we are doing well in relation to exporting in that regard. However, as is evident in that EU report, some of the companies that are in Scotland could almost be called carpetbaggers. It is well known that you are not

likely to get a contract in a country unless you have a footprint somewhere in that country.

We have found that, when some very large global companies come into Scotland, instead of being, as you would hope, inward investors that help Scotland export to the rest of the world, they are in fact taking work, which has long-term implications for Scotland, whether it is in skills and training, research and development, helping small businesses grow or encouraging start-ups. Our findings are that, whether it is with Scottish Water, PFI contracts or projects from procurement Scotland, large companies are coming in, setting up very small offices in Scotland and getting work that is vital for our future economic and social development.

The Convener: Paragraph 2 in the section of your report that is entitled “Conclusions and Recommendations” states:

“Despite the stated good intentions of the Scottish Government, the actions of that government in several important areas (water procurement, hubs, PFI contracts) have resulted in very large contracts which have put barriers in the way of small and medium-sized firms participating.”

You touched on that in your opening statement. However, Barry White, the chief executive officer of the Scottish Futures Trust, stated yesterday in *The Scotsman* that

“every single hub partner involves firms with a strong Scottish base.”

He referred to

“well-established construction firms ... employing more than 1,000 people”

in each of the hubs. Are your concerns as well founded as you suggest? The CEO of the SFT was robust yesterday in *The Scotsman* in suggesting that there is in fact a strong Scottish component to the hubs.

Margaret Cuthbert: There are five hubs distributed around Scotland. Four of them have now signed their contracts. Of those four, only one—the east central hub—has a strong Scottish presence, with Dawn Group and FES working in it.

The point is that the companies in some of the other hubs—whether it is Cyril Sweett, Galliford Try or Graham, from Northern Ireland—are not Scottish firms. The name that Galliford Try uses in Scotland is Morrison Construction, which is obviously an old company that started off in Tain but which was bought over before it was brought back into the family and then sold off again to Anglian Water. It is now owned by Galliford Try, and there is not a single person from Scotland on the board of Galliford Try. It is not surprising that Barry White, who has a strong Morrison Construction background, believes very much that those are Scottish companies.

We argue that it is worth while, in such a hugely important sector, to consider why so few Scottish firms are coming forward. Why is it that, although the Scottish Development Agency was created in 1975 and before that there was the Highlands and Islands Development Board, so few Scottish firms seem to be fit for that type of market? Are the contracts that are going out far too large? Are the Scottish firms incompetent? Is it that the tail is wagging the dog and that the way in which the non-profit distributing model and, in particular, the hub system have been set up so that there are large financial packages means that we go for those very large companies?

Jim Cuthbert: Although we are critical of the hubs in our report, we are critical not so much because of their performance—given that they are new, it is difficult to say how they will behave—but because the potential in the hubs for very large and long contracts puts large firms into a dominant position in the supply chain for an extended period, with the potential for things to go badly wrong. Because the hubs are so new, it is difficult to say how they will behave.

I come back to the more general point. The development of the Scottish economy is not just about getting a lot of subcontract work and a lot of jobs. Alex Neil stood up on television and said, “Jobs, jobs, jobs.” We differ from him on that. Jobs are definitely important, but we will not get an economy that organically grows and which exports and conquers the world based on subcontracting. One of our major worries is that, if we give the commanding heights of the economy to large multinational firms or firms that are headquartered outside Scotland, we handicap the development and growth of the Scottish economy.

As for the question of what is or is not a Scottish firm, the one thing that we are not is simple-minded on this issue. We are not saying, “Scottish good—not Scottish not good”. There is a spectrum of different kinds of firms and ownership structures and one cannot say that one is good and another bad. In fact, one of the thrusts of our report is that we need to collect data of sufficient richness to allow it to be analysed in different ways; in other words, data that can be cut one way for one purpose and another way for another purpose. After all, different aspects of firms need to be examined and, in certain circumstances, we will want to be able to analyse the functions that they are carrying out in Scotland, where the research and development is being taken forward, where the strategic decisions are being taken, where the profits are going and the potential for the firm to grow. That is the sort of richness that, ideally, the data should have, but the point is that in a subcontracting economy firms will not have those functions and will be unlikely to grow organically.

10:15

The Convener: I am reminded of a series of presentations by Jim Mather in the mid-2000s. As I recall, he used to argue that case very strongly.

Jim Cuthbert: I am sorry—I do not have a mind map.

The Convener: I open the questioning to colleagues around the table.

Mark McDonald (North East Scotland) (SNP): I thank you for coming to the meeting. As you will know, the Government will be introducing a procurement bill in the very near future, so in that respect your input is timely.

That said, I am slightly confused. You mentioned the impact on small and medium-sized enterprises and then said that the subcontracting issue is, in effect, a red herring. However, even if contracts were broken down into smaller bits, a lot of the companies would still not be big enough to bid for them and would have to rely on subcontracted work. Surely you must accept that the subcontracting element is extremely important, particularly for the small and medium-sized firms that will not bid to lead a contract.

Margaret Cuthbert: Absolutely—subcontract work is important. However, various aspects of how contracts are put out are still hindering economic and social development. On both the Forth replacement crossing—which is one of the biggest projects on the books at the moment—and the Southern general hospital, there is a high presence of Irish companies, one of which started only in 1975. Why are we, as Mark McDonald suggests, expecting a lot of our firms to subcontract and therefore not to grow? We have to give those companies an opportunity to grow by, for example, breaking down big contracts.

The Forth replacement crossing has been costed at between £1 billion and more than £2 billion, but I note that the companies that will be responsible for constructing the bridge are Hochtief (UK) Construction, Dragados, American Bridge International and Morrison Construction. It is inconceivable that in Germany and France contracts would be going out like that. The contract for the gantries for the intelligent transport system has gone to John Graham (Dromore) Ltd of County Down; construction of the M9 junction has gone to Sisk Roadbridge Civil Engineering, which is an Irish civil engineering company; and the employment delivery team is made up of Transport Scotland and Jacobs Arup. If those projects had been broken down into lots, which is completely allowed under the European directive, some of the jobs would have been fit for current Scottish firms and would have enabled them to grow. Indeed, such a policy has been adopted in the United States and many European countries.

Mark McDonald: Is there a risk that breaking down contracts increases the global cost of a project? After all, each contract would have to be bid for separately, not as part of an overall package.

Margaret Cuthbert: The answer would depend on whether you are looking at the issue from an accountancy point of view. Are you dealing with the issue in the short term or are you looking at the dynamics of the whole situation and the improvement to Scotland at the end of the day?

Jim Cuthbert: You can argue that both ways. It is interesting that when we did work on PFI we came across evidence to the contrary; we found a very limited market and strong evidence of limited competition and very high costs. We found on the web what was virtually an internal presentation by one of the major construction companies that is heavily involved in PFI, in which the managing director of the company extols the virtues of PFI from the point of view of the company. He said that tender costs and complexity restrict competition. In other words, the fact that PFI contracts are huge and very costly to bid for means that few companies can bid for them. Therefore, by definition, large contracts mean a limited market, and when there is a limited market costs are likely to go up. I agree that it can be argued both ways, but there is clearly a countervailing tendency that large contracts lead to limited competition and can lead to high costs.

Mark McDonald: I have no intention whatever of defending PFI.

I do not disagree about the need to have more Scottish companies bidding for and winning contracts and delivering projects. However, in achieving that, we risk our being accused of trade protectionism and blocking international companies from bidding. We operate in a global business context in which countries from around the world can bid for contracts. If they achieve the best score in the procurement process, by and large, they should be awarded the contracts. How can we achieve the outcome that we all want—more Scottish firms delivering contracts—without running the risk of throwing up trade barriers and falling foul of EU law?

Jim Cuthbert: In our report, we look at EU evidence, and one of the studies that was carried out by the EU was on practices in all the different EU countries to encourage small to medium-sized enterprises to participate. Let us take Germany as an example. The German economy cannot be regarded as being an inefficient one, but Germany regards the small to medium-sized enterprise sector as the core of its economic strategy and makes it a legal requirement that public sector contracts be broken down into lots precisely so that small to medium-sized enterprises can bid for

them. Therefore, there is evidence from the EU that it is possible to be much more proactive in insisting that contracts be broken down and that, furthermore, that policy works in the context of a successful economy, such as that of Germany.

Margaret Cuthbert: When we interviewed procurement Scotland on that point, it was pleased to say that there had been very few incidences of anybody challenging it compared with the situation in any other country in Europe. However, that is not so good, because it means that procurement Scotland is operating within a comfort zone that it is not testing the bounds of the law.

European law has been interpreted differently in Scotland and the UK from how it has been interpreted in the rest of Europe, where there have also been differences in interpretation. When there has been any leeway in incorporating an EU directive into law, what has happened in Scotland has very much followed what has happened in London, and what has happened in London has favoured big business. When there has been an opportunity to pay more attention to workers' councils, employees, training, research and development and so on, that has not been incorporated into our law.

Mark McDonald: I have a final question. I have had discussions with contractors about local contracts and local procurement. Do Scottish firms need to be more savvy in considering consortia arrangements when bidding? That might increase the possibility of contracts being won in Scotland. Three or four Scottish companies might be bidding against one another but be unable to compete on price, for example, so a larger firm from outwith Scotland might bid against them and win on price. The question is whether a consortium might be able to compete better on price in the short term, at least, until we decide how to go forward on procurement. Do Scottish firms need to consider that type of arrangement?

Jim Cuthbert: They absolutely do: in fact, the public sector could probably do quite a lot to assist in that process. One of our recommendations in the report is that Scottish Enterprise take a much more proactive role. One thing that it could do is assist in the formation of consortia such as Mr McDonald mentioned. However, there is also a lot that the public sector could do more directly and immediately. One of the complaints that one hears from small businesses is that the set pre-qualification criteria for turnover can mean that they are ruled out because they do not come anywhere near the required turnover. So, if the public sector were to look at the turnover criteria and the size and nature of contracts, we could do some things quite easily that would make it much easier for SMEs to compete and to be successful.

Margaret Cuthbert: That holds true not just for the public sector as far as the Scottish Government and local authorities go, but for Scottish Water. As members will know, Scottish Water has had a huge reduction in the number of its employees. It would be interesting to know how much in-house expertise remains within Scottish Water and whether it could operate a more managerial role, breaking down projects and having small businesses work to a bigger plan in which they dovetail with each other and work together.

Paul Wheelhouse (South Scotland) (SNP): I welcome the witnesses to the committee. I declare an interest in that I used to work for a number of consultancies that have been involved in bidding for contracts. In that regard, I will specifically refer to DTZ.

A point was made earlier about the ownership status of companies. I used to work for a firm called Piedad plc, which was bought over by DTZ, so it moved from being an independent Scottish-owned consultancy practice to being part of a larger UK-owned group. To illustrate the point that Mark McDonald raised earlier, that company might not be classified as a Scottish company, even though it has a substantial base here in the form of an indigenous company that has been bought over. That is just an observation.

I have a couple of points about procurement. Mr Cuthbert touched on the pre-qualification situation. As somebody who has gone through that, I am well aware that companies often come up against procurement officers who have no knowledge of the work that is being bid for and who assess bids purely on the set pre-qualification criteria. As Mr Cuthbert quite rightly identified, sometimes something like turnover or a technical breach can see a company that is the primary source of expertise in the country being ruled out, when the people who issue the contract through the procurement team might have wanted that company to tender. Have you picked up anything in research about the extent of the difficulties that are faced by companies bidding in the situation in which a local procurement officer has no knowledge of the company's previous expertise and rules it out on a technicality rather than interact with it and tell it, for example, that it might want to do something about a particular issue in its qualification criteria so that it can go forward to the next stage?

I suppose my next point relates to larger companies. It was said in the past—perhaps not now, given the change in the market—that nobody ever got fired for buying IBM; the mentality was always to go for the well-known brand rather than for a new company. A similar situation is that a framework contract that is in place for a defined

period shuts out any opportunity for a new company to get into that area of work, even if by virtue of its staff's expertise it has knowledge that is as good as, or better than, the companies that are already in the framework contract. How do you recommend that that sort of situation be addressed?

Jim Cuthbert: On your first question, we did not pick up precisely that, but we did pick up something similar that relates to framework agreements. One of the thrusts of the McClelland report was the establishment of central purchasing agencies. There were some already, but the McClelland report give a big impetus to them. One of their major functions is to set up framework agreements. We detected that central purchasing agencies issue general specifications that do not incorporate the specific requirements that are an essential part of EU law, if we want to nudge a contractor in a particular direction. There seems to be a tension between central purchasing agencies and framework agreements in particular regarding the ability validly to put work in the way of small, specialist local suppliers.

10:30

Another recommendation in our report is that we need to be much more careful in the future about monitoring the effect of framework agreements. We looked at quite a large number of framework agreements in detail and were shocked at how, in many areas, there were no, or virtually no, Scottish firms involved. In some cases there seemed to be a clear reason for that.

We highlight in the report the case of Advanced Procurement for Universities and Colleges Ltd. It turns out that almost 30 per cent of the framework agreements that APUC runs on behalf of Scottish universities and colleges do not originate in Scotland, but originate with the regional purchasing organisations elsewhere in the UK. Virtually no Scottish companies are involved in that quite large group of framework agreements. That is not surprising: if the Southern Universities Purchasing Consortium is issuing a tender for a framework agreement, Scottish companies are not likely to apply. When that is taken by APUC and used in Scotland, that is bad for Scottish companies. We recommend in our report specifically that great caution be used in applying in Scotland framework agreements that have been negotiated by regional purchasing organisations elsewhere in the UK.

Some framework agreements originate nationally; there are specialised UK-wide purchasing organisations, such as Buying Solutions. It makes sense—for some requirements—to take a framework agreement that they have advertised, although they will have

advertised UK-wide, so the position is not likely to be so bad. However, on framework agreements generally, we were worried about the low penetration by Scottish firms, which we think should be carefully monitored.

As I mentioned earlier, the monitoring system is not capable of giving the detail of what is happening with framework agreements. We do not pick up framework agreements that are negotiated outside Scotland—of which there are quite a lot—and we do not pick up individual call-offs from framework agreements. It may be that there is a Scottish company among the five companies that are assessed on their framework agreement; that would be recorded, but we would not know whether they get any work from it. We need to keep a handle on what is happening with framework agreements. To do that, we need to move our monitoring system up a gear or two.

Margaret Cuthbert: I will comment on Paul Wheelhouse's first point, which was that he used to work for DTZ Pieda—or, rather, for Pieda until it was taken over. That is happening a lot in Scotland—John Mason mentioned Robert Wiseman Dairies being taken over. All such things fall within competition law, and mergers and acquisitions law. There is not much point—nor has there been for long enough—in growing SMEs in Scotland because many, the minute they are big enough to be seen over the parapet, are bought over.

Again, although we intend to do so, we have not done much work on competition, mergers and acquisitions—which is a reserved function—on comparing the situation with what is going on in France, for example, which has already declared 11 sectors as being in the national interest, so caveats come in before a business can be taken over. In Germany and France, attention has to be paid to works councils, which can add nine months to a year to a negotiation under competition law for anyone who wants to take over or merge a business.

In other words, other countries are looking at the community in which people live and at the social and economic development of that community, rather than allowing everything to be determined by globalisation and short-term efficiency.

Paul Wheelhouse: The other point that I was going to raise about those larger companies—it was touched on by Mark McDonald—is the degree to which, because of their scale, they can have specialist professional bid teams to submit bids either at the pre-qualification questionnaire stage or to the full tenders. Obviously, that makes life difficult for the smaller companies. Taking time out of the day-to-day activities for which a company earns fees to prepare proposals and tender submissions uses a lot of resource.

Under the Government's proposals on sustainable procurement, there will be more training of SMEs to provide them with the skills to compete on a more level playing field with the larger companies. Have you picked up any messages in your work about how important that would be? Do you support such an initiative?

Margaret Cuthbert: The consumer in this case is the public sector, which is paid for by us and is putting out to tender £9.2 billion of contracts. Some of the onus must therefore be on the public sector to put out contracts that have been framed up front to take into account social and economic development factors such as training and skills. If the public sector hands that over to a large company, the company can determine how many modern apprenticeships will be involved, and it may just say that it will try—as was said with regard to the Southern general hospital—to give work to SMEs. In that way, the public sector would lose control of a large amount. We should perhaps be looking at the expertise in the public sector—we have drained it too much.

Paul Wheelhouse: I am sorry. I was making a slightly different point. I understand your point about the requirement to provide training for the individual staff who are involved in delivering the contract. However, my point is about whether contractors who apply for the contracts will be given more support and training to enable them to make better use of the procurement process and to overcome any barriers, given that larger companies may have more capability than smaller companies in preparing bids. Do you have any views on that?

Margaret Cuthbert: Yes, I appreciate that point. There are such initiatives down in England.

Jim Cuthbert: Leicestershire County Council, for example, is active in developing a programme on that. A recent report by the Local Government Association down south—I cannot remember the details of it—highlights Leicestershire as an example of what precisely can be done to strengthen the ability of SMEs to compete.

To make the same point in a slightly different way, I say that there is always a danger that large companies will scoop the pool with regard to contracts. However, in France, for example, there is a means to get around that in the form of a legal requirement that large public contracts be split into lots. There is no restriction on the number of lots for which any company can bid, so a large company can come in and bid for all the lots at once, but it is possible to restrict the number of lots that are granted to any one company. That specific provision can be applied to prevent a large company from clearing the pool and scooping up all the lots in a particular contract. That sort of

thing is entirely possible under the EU directive, and is something that we should be thinking about.

Obviously we must tackle a problem such as this from all ends, so I agree completely with Paul Wheelhouse that taking action to strengthen the ability of SMEs to bid and compete would be extremely valuable.

Margaret Cuthbert: We have such an example in Scotland: when a new school was built in Cupar in Fife, about 12 different contracts were put out to tender—through the public sector procurement portal—for the plumbing, the electrical work, the building and so on. South Lanarkshire Council, in contrast, bundled all its schools projects together into one enormous PFI project that was not suitable for a Scottish contractor.

We need training at the SME end, but Scottish Enterprise needs to think, “Wait a minute—there's a £9.2 billion market here. Why are we not helping those companies more so that they are fit for that market?” We also need the expertise in the public sector to break down jobs properly.

Elaine Murray (Dumfriesshire) (Lab): Thank you for the report, which I found to be very interesting reading.

You mentioned that the McClelland report tackled things from only one side of the argument—the cost-saving side—and did not look at economic growth. I wondered whether that was, to an extent, because that report was produced in 2006, when the economic situation was a bit different and people were not concentrating so much on the need to revitalise Scottish companies.

We have tended to hear the excuse in Scotland that we cannot address these procurement issues because the EU will not let us. You tackle that in your report by looking at a number of companies—you have mentioned them today—that take a different approach and get away with it.

I had a look at what is happening in Wales, which seems to be doing better. There are some examples of good practice there. Are you familiar with what happens in Wales? It seems that, by 2008, Welsh suppliers were getting more than 50 per cent of public sector contracts in Wales. It also seems that 56 per cent of the registered suppliers on the Sell2Wales website are Welsh and that Welsh businesses secured 15 out of 26 major contracts in 2010. Can we learn anything from our colleagues in Wales that we could translate into Scotland?

Margaret Cuthbert: We saw those figures too but, unfortunately, we have not seen the database. Some of the problems that occur in our database could arise in that one.

It is clear that what is important is what is written into the contract to begin with. There are two specific stages in advertising through the *Official Journal of the European Union*. The first is that all the various conditions—the things that are being looked for—should be set down clearly. Let us say that we want somebody who can supply spare parts within two days or who will do research and development in Scotland. Somehow, we are not good at making those specifications up front. When it gets to the stage of companies competing, we cannot then say, “Hang on a minute, we really wanted somebody who could produce the goods in two days.” At that point, we have missed the boat.

Perhaps Wales is better at specifying the up-front conditions, which is where we really need to put economic and social development conditions. Once we have put those in, we can judge the firms against them, but we are too late at putting them in.

Elaine Murray: You suggest that we perhaps need a change in the legislation on specifying contracts in Scotland. Is it necessary to legislate or do people simply need to do things differently?

Jim Cuthbert: Interestingly, it should not be necessary to legislate. After all, we are talking about the public sector. If the Government wants the public sector to behave in a certain way, what it wills should happen. However, we are talking about 122 different agencies that are responsible for spending the £9.2 billion of devolved public procurement in Scotland. Perhaps it is not such an easy managerial problem to get them to change their behaviour and behave in the way that you want, so legislation is an option but, in an ideal world, one should not have to take that route.

There is a cultural problem in the civil service. I speak as an ex-civil servant, so I do not want to be too critical. However, it is easy for a ministerial directive or wish to be translated into a set of meaningless box ticks that do not fulfil what the minister wants.

We spoke recently to a fairly senior civil servant involved in procurement, who said, “When companies come to Scotland to do public procurement contracts and set up an office, that is really inward investment and ministers are keen on inward investment, so that is jolly good. We are keen on that.” We told him that we could not believe that, when ministers think of inward investment, they think of companies getting a foothold in Scotland in order to exploit the domestic market. Inward investment as the minister surely understands it is a company coming to Scotland in order to use Scottish skills to take on the rest of the world and export to it. It is easy to lose the thrust of a ministerial wish to box

ticking in the civil service. Perhaps legislation could get round that. Our mind is open on that.

Margaret Cuthbert: There are two other aspects. One is that we need far more openness. As you know, the present Government moved from PFI to NPDs, but we find it just as difficult to get information through freedom of information requests under the new system as we did under the old.

The position of the Scottish Futures Trust has, if anything, made life even harder for researchers because territorial agreements are set up in the first place and the individual projects move on thereafter. It would be great to get our hands on those and find out whether they are, in fact, performing as well as the SFT says they are.

When the previous chairman of the Water Industry Commission for Scotland, Sir Ian Byatt, was asked whether a provision should be inserted to ensure that some of Scottish Water’s £500 million infrastructure and investment programme had economic and social development strings attached to it, he replied that that was not in the ministerial guidance. He had no intention of inserting such a provision so, other than providing water to people who are in straitened circumstances, Scottish Water does not play an economic and social development role.

10:45

Elaine Murray: Your comment about somebody coming in is interesting, because an American firm did precisely that in my constituency. It went bust, left a string of debts behind and did nothing for economic development in the area, so I know exactly what you are talking about.

Finally, Professor Brian Ashcroft has suggested that you are advocating the adoption of a “mercantilist policy” that

“in the end benefits neither the Scottish tax payer nor small and medium sized firms in Scotland.”

How would you rebut that?

Jim Cuthbert: Brian Ashcroft is an old friend and he has a colourful turn of phrase—I remember him sounding off about Zimbabwe in a Scottish context on one occasion. We are not being mercantilist or the slightest bit protectionist. We have made a point today of saying that we are not adopting any simple-minded view by saying, “Scottish good, foreign bad.” We are interested in how firms perform in Scotland and in having the information to be able to assess their performance.

We are also interested in the public sector setting up systems that encourage beneficial economic activity in Scotland and that discourage malevolent or non-beneficial economic activity. We

think that the present systems fall into that category, but in no way are we being mercantilist. Ultimately, Scotland has to compete and take on the world, and we cannot do that by being protectionist.

Is Brian Ashcroft saying that Germany is being mercantilist? We are advocating that what we do in Scotland should follow the example of some of the things that Germany does. One may criticise Germany's economic model, but it is certainly not narrowly protectionist or mercantilist.

Margaret Cuthbert: The word "mercantilist" comes from a previous era when human knowledge of and expertise with electronics and high-tech equipment were not on the cards. We have to make sure not only that we compete in a globalised world but that we foster the skills, expertise and businesses that can help us survive. It is accepted by the EU's procurement directive that we have to encourage R and D in Scotland. One way of doing that with a £9.2 billion procurement package is to ensure that much more of the R and D element stays in Scotland. That is allowed in the EU. In the days of mercantilism, that type of thing was not even on the cards.

Michael McMahon (Uddingston and Bellshill) (Lab): I want to tease out some information based on some of your earlier comments. You raised the question of why so few SMEs were bidding for work. A company in my constituency has done a lot of work over the years on information and communications technology for health boards, police boards and all sorts of other public services, but it could not even get into the tendering process for a Scottish Government contract, because the turnover criterion was set at a level that it could not meet. Although the company that it lost out to is also Scotland-based, it is owned by an English company that meets the turnover criterion. What surprised the company in my constituency was not so much the existence of a threshold for turnover but the fact that it was set at an arbitrary level for which there did not seem to be any justification. Have you also found that to be the case?

Margaret Cuthbert: Our experience is exactly the same. For example, the capital expenditure threshold for an *OJEU* project tends to be about £4 million, but the threshold that was originally set for the hubs was less than £1 million.

Jim Cuthbert: That was not the turnover.

Margaret Cuthbert: That was a different issue; nevertheless, it was a restriction that meant that the thing had to go through the hubs. As a result, the large companies in the hubs got first choice at doing the job and the SMEs that would normally have picked up the job did not get it.

Since our report was published, we have been contacted by a number of people, including people responsible for federations, who have made the point that you have just made. However, that evidence is anecdotal; we have not examined the data ourselves.

Jim Cuthbert: Our work was primarily to do with contracts and that kind of data. We did not ask people, "Why do you do such and such?" The report contains strong evidence about what is happening on the ground, but if we were to get into the question of why things happen, we would simply be speculating rather than giving you firm evidence.

That said, one can speculate in this area. For example, one can imagine that setting a high turnover threshold will reduce the amount of work; because fewer people will come forward, there will be less work involved in considering bids. Going for large companies will also make the whole procedure less risky. As someone said earlier, you do not get sacked for hiring IBM. Large companies are less likely to disappear on you during the contract period. One might speculate that certain risk aversion factors would point in that direction but, as I say, we would be getting into speculation rather than highlighting very firm evidence.

Margaret Cuthbert: I point out, though, that we have Scottish Enterprise and the Scottish Investment Bank. Perhaps the possibility of bringing in guarantors should be examined more; after all, if we want to grow the economy, we have to accept some risk. I am not saying that we should give SMEs an advantage, but perhaps we should introduce some kind of guarantor system to level the playing field and allow them to bid for these things. However, I have not thought that suggestion through.

Michael McMahon: That is useful and, indeed, backs up exactly what the local company was telling me about the criteria that had been set. It tried to enter the tendering process but could not get over the bar that had been set.

Earlier, you suggested that it would be best—perhaps in theory—to break down large contracts to make them more viable to and suitable for smaller companies. However, that proposal does not sit with my own local experience. There were three major transport projects in my constituency that were on the stocks for a long time—the M8, the Raith interchange upgrade and the M74 expansion project. They had sat separately and been timetabled individually as public-private partnership PFI projects. When I discussed with construction companies in my area the various delays in and difficulties with taking those projects forward, I was told that, because the Scottish Government prefers NPD PFI rather than PPP PFI, the three projects had had to be bundled

together to make them more appealing and attract investment. The counterintuitive conclusion is that, if you use NPD, you have to put together larger contracts to make them more appealing to companies—which actually excludes Scottish companies from the process.

Margaret Cuthbert: As we said earlier, we believe that, in some cases, financial engineering is wagging the dog. However, although we have studied a few NPD financial projections to see whether they are as sound as we would hope, we still do not enough information coming through. The profit motive of the equity stake might have gone, but many other aspects of the approach mean that SMEs are not going to be part of the competition. The tax increment financing system that is being introduced—indeed it is one major reason why the hub is of so much interest—has its opponents and supporters in the United States; again, financial engineering is driving the size of the package.

Jim Cuthbert: There is considerable literature in the States on the performance of TIF schemes; it was certainly taken up—if not invented—there quite a long time ago. What is being run there is a slightly different model from what is being developed in the UK and Scotland but, nevertheless, it is clear that there are potential dangers with the TIF approach, and some parts of the States have abandoned it for that very reason. We recommend that you keep a close eye on how TIF develops and that you have the information to be able to detect if it starts to go wrong.

When the NPD model was being developed, one of the disappointments was that the intention was still that it should meet the test of being off the Government's books. We did not understand that at the time, but we now understand rather better that, when the Government changed the accounting rules on PFI and NPD projects, they were brought on-book, to a certain extent, in the national accounts, but there is still an incentive to get them off departmental books. Given that incentive, there is a need to bundle the projects into what are called non-separable projects. That means that they are, by definition, large. Accountancy requirements are, in a sense, driving the way in which projects develop and pushing us towards large projects, which has the effect of blocking out small firms.

Michael McMahon: Elaine Murray mentioned EU procurement. I have often heard that used as an excuse for not doing something. Your report refers to the Scottish Trades Union Congress's argument that EU procurement rules could be used to ensure that Scottish work stays here. A good example of that is the recent decision on the Forth replacement crossing. Had the environmental impact of the construction been

taken into account, it would be difficult to justify bringing steel 12,000 miles from Shanghai when we could have brought it 40 miles from Lanarkshire. If we are not using EU procurement rules at the moment to support Scottish industry, is there vast scope for doing that or is it just on the periphery?

Margaret Cuthbert: We argue that there is vast scope to do that. When you think of school, you might just think, as I do, of a bog standard building, but schools today are interested in bioenergy and various other means of saving energy. All of those are heavily within research and development, so huge bits of the contracts for schools could have gone to local firms as of right and not been given to outside competition. That is on the R and D side.

The STUC has done quite a bit of work on the fact that the Office of Government Commerce in London and then Scotland introduced a procurement bill without taking into account any of the leeway that was offered in the European directive, which includes paying much more attention to workers.

Jim Cuthbert: I do not have anything to add.

Gavin Brown (Lothian) (Con): Earlier, you talked about contracts going to SMEs and suggested that the 75 per cent figure was misleading. Your reason for saying that was that you think that the definition of SME is unhelpful. The definition of 250 or fewer employees is, of course, an EU definition. What definition do you think should be used in Scotland? Should there be several categories or subcategories of company in order to give us the most accurate picture?

11:00

Jim Cuthbert: I do not think that I would propose a single figure; the data should be collected in such a way that it can be analysed appropriately for any specific purpose. To be fair to the portal system, it does collect information in much more detail; for example, the bands for size of company are fairly fine. It could analyse the data in a different way if it wanted to and indeed it has done so. Procurement Scotland gave us a table based on a different company size categorisation.

The other important point is that our criticism of the 75 per cent figure is not based just on the particular threshold that is used. A number of other points are set out in detail in the report, so I will not go through them again, but there is the question of the accuracy and consistency of the data. The size of the company is self-reported, and there is not necessarily consistent reporting by different firms.

What we have is the classic situation of an administrative system being used for statistical purposes. In the report, we give credit to procurement Scotland—credit is genuinely due to it—for setting up the portal system, which, essentially, is meant to set up a marketplace in which people can exchange information. It seems to carry out that function very well, and a lot of credit is due to procurement Scotland for setting it up. However, such a successful administrative system is not necessarily fit for purpose statistically. That is where things have gone wrong. In an administrative system, it matters only that the coverage is relatively complete and people can be contacted; the accuracy and consistency of the classification data in it do not really matter. However, when we come to analyse statistics, accuracy and consistency become of prime importance. That is what seems to have gone wrong. An administrative system has been overused for statistical purposes without its performance having been exactly checked.

Margaret Cuthbert: I will give an example from the report. There was a framework agreement for Scotland—a framework agreement does not mean that the firms involved will get work at the end of the day; perhaps five firms will be chosen, and one, two or three of them might get the work. Several of the companies in that framework agreement were part of the same chain, so they could all go in as SMEs, although together, they were just one company and were probably therefore over the 250 employees barrier.

Gavin Brown: That is helpful. Thank you.

I want to explore another angle. Regardless of who is in government, one difficulty with procurement is that it involves potential tension between two laudable public policy objectives. There is the desire to get best value—however that is defined—cut costs and get the best out of every public pound, but there is also the desire to get a level playing field or better opportunities for Scottish firms, including SMEs. I said “potential tension”, as those desires do not necessarily directly clash. If, for example, there are only small blocks, there is a danger that savings that might otherwise have been made might be lost, but if the norm is to bundle everything together, that will make things much more difficult or impossible for smaller firms. How should the Government try to balance those two potentially competing public policy objectives? Perhaps you can give specific examples.

Jim Cuthbert: I will complicate the matter even further by suggesting that the split is not a two-way one; there is at least a three-way split. Another important factor is avoiding malpractice in procurement, and there is a clear tension in that respect. If procurement decisions are brought into

central purchasing agencies, the potential for malpractice to occur at the local level will be greatly reduced. Such malpractice is a real threat. People in procurement Scotland validly made that point when we spoke to them in preparing the report. They made the point that they have a policing function—they try to raise and police standards of behaviour across the public sector. Therefore, there is another tension there. However, centralising to raise standards involves the difficulty of adequately taking account of local circumstances.

There is a three-way split. Things pull in different directions, and that is extraordinarily difficult to manage. The only thing that one can do is keep one's eyes open and use judgment. That calls for very high-quality staff in the public sector overseeing the process and moving away from the danger of the tick-box mentality of deciding that one is interested in one particular measure. People can say, “We're going for cost savings and that's it. If we show big cost savings, we're doing fine.” All the performance criteria in the system need to be looked at, and it must be managed so that there is an acceptable balance across all three axes.

Margaret Cuthbert: I refer to the two axes that were mentioned. There is tension between economic development and trying to get efficiency in procurement. At the central and local authority levels—I will not speak about the other agencies, as I do not know about them—there are economic development divisions and there are procurement divisions, and they tend not to speak. We have set things up in such a way that we put the £9.2 billion through procurement agencies rather than trying to get a proper marriage between economic development and procurement. In fact, we can probably come up with only two examples in which Scottish Enterprise has been properly involved in a procurement exercise. According to procurement Scotland, that holds at local authority level, too, in that there are instances in which economic development departments are working with procurement but they are few and far between. We need to do much more than that.

Gavin Brown: That is helpful, thank you.

John Mason (Glasgow Shettleston) (SNP): This has been very interesting and makes me wonder whether there are wider underlying attitudes and cultural issues here than just the issue of procurement.

When I did my limited number of economics lectures at the University of Glasgow, there was the concept that, if we sell whisky to China, and China sells steel to us, Scotland and China benefit, and it is therefore a disadvantage if that free trade is restricted in some way. I suppose that I have got that approach very much built into me.

The culture—perhaps it is British culture more than just a Scottish one—has been that we want the best deal. Was it Napoleon who said that England is a nation of shopkeepers? We have sold off our electricity industry, our railways and so on whereas countries such as France have not. Is there something deeper—call it a sense of fair play or a sense that we do not want to be like Italy and have the mafia deciding who is doing what—that has caused us to overreact and end up being so fair that we do not look after ourselves?

Jim Cuthbert: I would say that that is very much the case.

There is a strong orthodoxy out there nowadays that, if markets are allowed to operate with the minimum of constraints on them, we will get the best possible outcome. The world is just not like that. I will provide two examples. Our trade with China is not free trade because, in a sense, the Chinese set out deliberately to game the world's exchange rate system and has deliberately kept its currency undervalued. We are therefore not getting an equilibrium breakdown of trade between us and China. China could be seen as having taken a strategic decision to corner a large part of the world's manufacturing and to manipulate the system to achieve that. One could say that many of the world's ills will not be corrected until that imbalance is redressed.

Another example would be the US economy, which is held up as the beacon—and success story—of free enterprise capitalism. In fact, it is not. All the defining technologies that have driven the US economy started in the public sector, many of them in defence. They started with the identification of a requirement for defence or strategic national purpose, massive public investment was put in and then they were spun off into the private sector. The world is not the free market optimum that is one particular view of it. It has always been managed and must always be managed. What we are saying is that we have to be more savvy about how we manage our public procurement in our own interest, which will be good for our economy rather than bad for it.

John Mason: But public procurement would be only one part of the picture presumably. Wiseman was mentioned earlier, and there are companies such as Scottish Power that we seem to be more ready to let go of than other countries would be. We would need to look at all those things.

Jim Cuthbert: Competition policy is key. We have a limited handle on that here.

Margaret Cuthbert: We need to take a much longer-term view on many items. For example, Jim was talking about China gaming the currency markets. You could say the same about Germany. It is the largest exporter of high-tech goods in the

world but in fact it benefits from a currency that is undervalued relative to how strong the German mark would have been. Also, Germany took a long view by setting up, first, the Kaiser Wilhelm institutes and, later, the Max Planck institutes and the Fraunhofer institutes. If a small optoelectronics company, for example, was started up as a spin-out from a university—obviously, this is not an exact case—and then there was a recession in the economy, it could go back into a Fraunhofer for a few years while the recession went on, develop its product using state funding and then come back out. However, a rival company in Scotland might be gone because of the recession, which could mean that we would lose any lead for years to come in a new, developing industry.

Jim Cuthbert: What is interesting is that the process in Germany that Margaret described is entirely legal within the EU procurement directive, because one of its big exemptions is for research and development contracts. Almost any such contract could be easily tailored to be exempt from the EU procurement directive. If the R and D is done not just for the purpose of the commissioning body—and most R and D has a wider purpose—it escapes the EU procurement directive. The type of support that Margaret described whereby the Germans can support small companies through times of hardship or recession could be done entirely legally by us within the EU procurement directive, if we were savvy enough.

John Mason: That confirms my feeling that the attitude needs to change. You referred to civil servants and so on in the past, and I presume that they shared the same attitude. It was said after the Scotland versus France rugby game that France played the referee but that we were naive enough not to.

Jim Cuthbert: Margaret made the telling point earlier that our civil servants pride themselves on operating well within the boundaries of the EU procurement directive rather than pushing up against the boundaries.

The Convener: I thank Ambassador Mason for his questions.

We are over time, so I will ask a final question on an issue that Margaret Cuthbert touched on earlier in response to Gavin Brown's questions, which is the role of Scottish Enterprise in terms of Scotland's buying power. You expressed concerns in your report about Scottish Enterprise's apparent hands-off approach to the entire issue. Can you develop some of those points for us just now?

Margaret Cuthbert: We asked procurement Scotland about the role of Scottish Enterprise. It was clear that Scottish Enterprise was a different body altogether and that there was little interaction with it. We have found only two cases in which the

input from Scottish Enterprise was deliberately set up to help with a procurement contract.

There is a complete absence from the Scottish Enterprise website of anything to do with procurement, other than reference to setting up trade fairs to encourage firms to realise that there is a market. We suggest that that is insufficient. Obviously, firms want to know that there is a market and want to be signposted to the portal. However, that is hardly big cheese compared with what could be done in getting firms fit for purpose and getting Scottish Enterprise, which is a Government agency, involved in some of the factors that were mentioned earlier, such as finding out what the barriers are to SMEs getting in and removing such barriers as much as possible to make a level playing field.

Jim Cuthbert: I have nothing to add.

The Convener: Thank you very much for your evidence, and thanks to colleagues for their questions.

We will have a five-minute break to allow the witnesses to leave and to give members a natural break.

11:13

Meeting suspended.

11:20

On resuming—

Growing up in Scotland Study

The Convener: Item 3 is an evidence-taking session with the researchers and Scottish Government officials involved in the growing up in Scotland study. I welcome to the meeting Paul Bradshaw from ScotCen Social Research; Donna Bell and Wendy van Rijswijk from the Scottish Government; and Marco Biagi MSP, who is attending in his role as co-convener of the cross-party group on children and young people.

Mr Bradshaw, I understand that you would like to make a short opening statement.

Paul Bradshaw (ScotCen Social Research): Indeed, convener.

Good morning, everyone. We are very glad to be here today and want to thank you for the invitation. The growing up in Scotland study—or GUS, as we more commonly refer to it—is a major longitudinal research project that tracks the lives of several cohorts of Scottish children through their early years and beyond. A longitudinal research project simply follows a discrete group of individuals over time. The individuals in such a study are usually linked in some way and, in the case of GUS, the children in each of the three groups who participate are linked by their dates of birth—they have all been born within the same 12-month period. We call the 3,000 children born in 2002-03 our child cohort, the 5,000 born in 2004-05 our first birth cohort and the 6,000 born in 2010-11 our second birth cohort. The size of our two birth cohorts means that around one in 10 children born in Scotland in the specified year have been included in the study.

We have been invited to give evidence as part of the committee's on-going consideration of preventative spending, under which approach negative social outcomes are prevented rather than dealt with when they occur. Not only can data from GUS tell us about children's outcomes but, because of its longitudinal design and focus on early years, the study is uniquely placed to provide understanding of the influence of children's early circumstances and experiences on those outcomes. As members might have seen from our briefing paper or indeed any of the study's reports, data from GUS has already provided significant insight to that end from a specifically Scottish perspective.

For example, our findings have explored the cognitive ability gap between children aged three and five from different social backgrounds, how that gap changes and the early experiences that influence change in cognitive ability during that

time. The results demonstrate, for example, the importance of good early parent-child attachment and an active home learning environment from a young age in ensuring continuing positive cognitive development, particularly among children from more disadvantaged backgrounds.

The study is funded by the Scottish Government, so one of GUS's key aims is to provide evidence to support the long-term monitoring and evaluation of policies for children and families, with a specific focus on early years. The study aims to produce an holistic view of the lives of children in Scotland; in other words, it seeks to provide information on the many and varied aspects of children's lives that influence the different trajectories their lives might take. Such aspects include their family relationships and circumstances, their health, their neighbourhood and their childcare and school experiences. We have shared the GUS findings with a wide range of audiences via our considerable dissemination programme and, as a result, study findings have influenced a number of policy and practice developments related to, among other things, the delivery of antenatal care, parenting support programmes, childcare and early years education.

The study is now in its eighth year. The next set of findings will be published in May and those separate reports will address early experiences of primary school; grandparents' involvement in children's lives; and overweight, obesity and activity. We have also recently completed the first full year of data collection with our new birth cohort and expect to report on the findings in late 2012 or early 2013. Among other things, that report will provide a comparison of the circumstances of children born in 2004-05 and those of children born in 2010-11.

GUS is a unique resource, which provides a range of stakeholders with invaluable evidence about the experiences of and outcomes for children and families in Scotland. Although considerable analysis of the data has already been undertaken, there is still much that could be learned from what we have gathered, and its value continues to grow. With each round of data collection, it becomes possible to map further and more fully the varied and complex pathways that Scottish children take as they move through the early years into later childhood and beyond.

Of course, none of this would be possible without the on-going support and participation of the families and children involved, to whom we are extremely grateful. I hope that members have had a chance to consider our briefing paper and some of the reports from the study. We are happy to answer any questions.

The Convener: Thank you very much.

I will open with a simple question. How did you choose the participants in the study?

Paul Bradshaw: The participants were chosen at random. We took what we call a stratified sampling approach and applied it to child benefit records. Essentially, we selected a period of 12 months; children who were born in that period were eligible for selection. We took data zones—small geographic areas at postcode level—and listed all the data zones for Scotland according to local authority and area deprivation. We selected about 130 areas at random, and all the children in those areas were invited to participate in the study.

The Convener: A few years ago, a lot of us were quite shocked by the main findings of the UNICEF report "Child poverty in perspective: An overview of child well-being in rich countries", which showed that the UK was near the bottom and, in some cases, at the bottom of the rankings on five of the six dimensions of children's quality of life that were reviewed. Has your study picked up good reasons for that? Why was that the case? How can we ensure that things change for the better in the years to come?

Paul Bradshaw: We are just at the stage of looking at that aspect of the data. We are about to launch the next round of fieldwork with our existing birth cohort. The children will be eight years old. We will ask them personally what they think about their lives. As part of that, we will attempt to measure their wellbeing. Once we have that data, we will be in a much stronger position to look at the factors that are present in children's lives up to that point and how, for better or worse, those factors affect their perspective of their wellbeing. To date, that is not something that we have looked at specifically.

The Convener: Section 3 of your briefing paper deals with social, emotional and behavioural development. It points out that, by the time they start school,

"about 1 in 10 Scottish children have moderate or severe social, emotional or behavioural difficulties. This rises to around 1 in 4 in relation to difficulties with conduct."

As well as noting that that is happening, have you looked at how we might be able to change things? Can you detail some of the changes that could be made to improve matters?

Paul Bradshaw: Certainly. The data that you referred to was measured at the point at which children were entering school, but we have earlier data on the same children, which was measured when they were around the age of three. We found that a large number of those children who exhibited difficulties on entering school also exhibited the same difficulties when they were three, which suggested that those children could

be identified at an earlier stage. In addition, we found that certain aspects of their lives up to the age of three—in particular, aspects of their home environment, such as how they were parented and their material circumstances—were associated with poorer outcomes.

I suggest that some of the programmes that are already in place around improving parenting support will be helpful in improving social, emotional and behavioural outcomes for children. Improved universal services, whereby children come into contact with services more regularly at an earlier stage, might be helpful in identifying some of those issues earlier on. That would allow action to be taken or support to be delivered so that by the time the children get to school, many of those difficulties have been tackled or the children are at least being supported.

11:30

The Convener: How are the GUS findings feeding into Scottish Government policy?

Donna Bell (Scottish Government): We want to be clear that all the work that Paul Bradshaw and his colleagues have been doing on GUS is having a great impact on informing our thinking.

In response to your previous question about what we can do to minimise problems such as conduct disorder and the social, emotional and behavioural issues that children experience, Paul Bradshaw is absolutely right: in many cases those things can be detected long before children reach school age.

A few things have been put in place to address that. You all know about the getting it right for every child approach, which generally involves getting children the help that they need when they need it. If issues are identified in families pre-birth, we should be looking at providing the right amount of support for parents and children at birth.

There is additional work at present on the health visitor 24 to 30-month check, which is when one would begin to see children demonstrating speech and language delay and other developmental delay. At that point, it is important to be able to put in place clear responses to turn that around.

There is a lot of other work to support that. Paul Bradshaw mentioned attachment, which is critical for good development and in enabling children to form good social relationships. A range of activity is going on in that regard. Parenting is also crucial to children's development. The parenting strategy is currently in development, and we are talking to around 100 organisations about what support parents think they need to be better parents.

Paul Bradshaw mentioned the effective programmes that address conduct disorder and

social, emotional and behavioural issues. Those include parenting support programmes such as triple P—the positive parenting programme—and the incredible years programmes, which focus specifically on conduct disorder.

We are doing some work in the early years task force on which of those programmes are most effective and how we can work with the NHS, local government and so on to deliver them more consistently across the country.

The Convener: I open up the discussion to committee members. We will have a question from Michael McMahon, followed by one from Mark McDonald.

Michael McMahon: Thank you, convener. I know how concerned you are about our diplomatic skills this morning, so I will preface my question by saying that, as a sociology graduate, I am aware that sociology has sometimes been described as complex explanations of the patently obvious. That does not mean that longitudinal studies such as GUS are not hugely important and do not have a huge impact in guiding policy, rather that they often reflect what one suspected might be the case in the first place.

Have the studies so far thrown up anything that you did not expect, or has the evidence that you have seen disabused you of any preconceived notions?

Paul Bradshaw: A lot of our findings tend to confirm what people thought already; we produce very robust Scottish evidence that those differences and associations exist.

On whether anything that has turned up in the results has surprised us, the key thing that always comes to mind when I am asked that question is how stark the differences are between children who suffer from multiple disadvantages and children who do not. We expected to find differences in outcomes for children, but we did not expect there to be such a range of them from day one, nor did we expect them to persist.

Michael McMahon: Has the study thrown up any of the structural reasons behind those differences? Are you concerned about the structural reasons for them, or do you just want to identify where the problem lies?

Paul Bradshaw: The design of the study and the data that we produce are better for identifying the factors that are associated with difficulties arising and poorer outcomes than for identifying structural issues that are preventing the achievement of better outcomes. We rely on those who are more involved in using our data to say what might be preventing something from happening or whether something could be changed to improve it.

Mark McDonald: Have you examined the impact that post-natal depression in the mother has on the child? It has an obvious impact on the mother, but is there evidence of its impact on the child when it is not detected early, or not treated, compared with its impact on the child when it is treated?

Paul Bradshaw: The answer is yes and no. We have looked at the influence of maternal mental health on child outcomes. A report was published at sweep 4—which would have been about May 2010—that used the first four waves of data to consider the influence of maternal mental health on social, emotional and behavioural outcomes for children. However, we did not specifically measure post-natal depression because the first contact that we had with families in the birth cohort was at 10 months, by which point it is too late to measure post-natal depression in a lot of mothers who suffer from it. Nevertheless, we measure maternal mental health on an on-going basis, and we have shown that poorer maternal mental health is associated with poorer early social, emotional and behavioural outcomes for children aged three and four.

More recently, we have produced research that looks at some of the events that appear to influence changes in maternal mental health. If we know what triggers a change in maternal mental health and we know that maternal mental ill health is associated with poorer behavioural outcomes in children, we can say that, if we prevent things such as job loss and couple separation from happening, we may prevent changes in maternal mental health, which may lead to better outcomes in children's social, emotional and behavioural development.

Mark McDonald: Were the findings the same irrespective of background—whether the mother suffered disadvantage—or were they relative? For example, would a child from a less-advantaged background whose mother had maternal mental health issues suffer a greater disadvantage because of their background and that factor than a child from a more advantaged background whose mother had poor maternal mental health?

Paul Bradshaw: All our analysis in the reports that were published in sweep 3 used complex statistical procedures to allow us to control for the effect of background. Therefore, we are able to say that, irrespective of household income and the level of parental education, maternal mental health has an association with behavioural outcomes. Irrespective of whether someone lives in a high-income household or a low-income household, if their mother experiences poor mental health they are more likely to have poor behavioural outcomes.

Mark McDonald: Is the effect not accentuated? Are children in a less-advantaged situation not likely to suffer more as a result of poor maternal mental health than children in a higher-income household?

Donna Bell: I am not sure what the specific evidence will tell you, but it has emerged from the study and other work that we have done that the issue is not specifically about the impact of mental health but about parents' ability or willingness to engage with services. Those who have a lower standard of education and fewer advantages are much less likely to engage with services, so they are less likely to get treatment. If the problem is not being treated, the impact on the children will be greater.

Mark McDonald: I was about to come on to that. Your report says that those from a less-advantaged background, or who have a lower standard of education, are less likely to access services. Birmingham City Council touched on that point when it came before the committee. How do we reach those people who are not necessarily unwilling but who do not access the services? Do the services have to make more of a proactive effort to find those people and get them involved? Are you looking at that?

Donna Bell: Absolutely. We are very keen to see the light touch of initiatives such as the play talk read bus going to areas in which few standard services are available, through to health visitors taking a more proactive approach. The third sector also plays an important role. Organisations such as Family Circle Care in Edinburgh and the Jeely Piece Club in Glasgow and a range of others throughout Scotland are engaging with people in their family life rather than waiting for them to come to a place. That is an important point.

Elaine Murray: Like the convener, I was a bit surprised to read that

"1 in 10 Scottish children have moderate or severe social, emotional or behavioural difficulties"

and that one in four have difficulties with conduct. What type of difficulties are you talking about? What implication does that statistic have for pre-school and primary school children?

Paul Bradshaw: We use an instrument called the strengths and difficulties questionnaire to measure social, emotional and behavioural development across a number of domains. At that age, a conduct problem simply means exhibiting bad behaviour, if you like. That is probably the easiest way to explain it.

Elaine Murray: What would you call bad behaviour in a child of four?

Paul Bradshaw: I cannot recall the specific items off the top of my head, but I could certainly

point you in the right direction. We are talking about unruly behaviour beyond that which would be expected of a child aged four or five, and which would cause the parent to report it frequently. The instrument measures difficulties with peer relationships, such as children not finding it easy to get on with friends, or arguing with friends. It reports on emotional symptoms, which is the extent to which children have low self-esteem or no confidence. The instrument also measures hyperactivity and inattention, or the child's ability to sit still or pay attention or follow through an action or task that they have been set.

Those are some of the difficulties that children might face, particularly in making the transition to a school environment in which they are expected to sit still for a lot of the time and to do things that are asked and expected of them. It is likely that they will be placed in an environment with children whom they have not met before and they will be required to establish relationships. They might be asked to perform tasks on their own or to speak out in front of the class at show-and-tell, which could be difficult for someone with low self-esteem or no confidence. Those are some of the immediate issues that children will face on entering primary school, which might make the transition negative. We know from other research that that transition can influence later school experiences and overall outcomes.

Elaine Murray: Could it not be argued that some of the expectations that we have of young children going to school are unrealistic? Other countries take a less rigid approach to the very early years so that slightly more exuberant behaviour is not regarded as disruptive.

11:45

Donna Bell: Curriculum for excellence looks to do things differently. The early phase up to age eight will be much more—I am reluctant to say play based, because the approach is much more structured than those words might infer—engaging for children and will place realistic expectations on them. We have moved on from the approach whereby children need to sit down and listen for long periods of time.

Elaine Murray: The study suggests that another negative factor is harsh punishment by parents. There is a view in society that children are badly behaved because they are not disciplined enough. That is perpetuated by the television shows that show Supernanny telling parents that they are too soft, sticking the kid on the naughty step and all the rest of it.

It is difficult for parents not to have the impression that their children are badly behaved because they are not strict enough. How do you

tackle that issue and ensure that parents of very young children understand the types of restraint or punishment that are appropriate for a very young child?

Paul Bradshaw: That is very difficult. We were very cautious with that finding, because all that we have determined is that there is a relationship between harsh punishment and a greater likelihood of, for example, conduct difficulties or hyperactivity. We do not know in which direction that relationship flows. We do not know whether the harsh punishment is a parental reaction in response to a child who is more difficult to control, or whether the difficult behaviour occurs as a result of a particular style of punishment. That is clear in the report.

I know from my knowledge of the parenting literature that parenting programmes try to help parents find the ideal middle ground, whereby they are not too relaxed about how they approach the discipline of their children but their children are offered a certain degree of autonomy. The household and the parenting should not be chaotic and there should be rules so that children know what their boundaries are, but they should have some awareness of their independence within those boundaries. That is a challenge for those who deliver the programmes.

The Convener: Parental consistency is a key issue. Children need to know exactly where they are. You are right that they need firm boundaries, but they need to be able to breathe within those boundaries.

Elaine Murray touched on the point that perhaps, in the Scottish system, we have too many expectations of children. In Scandinavia and elsewhere children start school aged six or seven. I remember having to complain to my son's primary school when, at the age of five and only one week into primary school, he was given a mountain of homework to do, even though he had been at school for only two days.

Some parents are pushy and seem to like that kind of thing, but there is an issue about children being allowed to develop and play when they come home from primary school rather than the school day being extended. Scottish parents sometimes want to send their kids to school when they are four and a half, never mind five. Is that an issue? In other countries, parents are much more relaxed about when they send their children to school.

Paul Bradshaw: The issue has come up a wee bit because the data that we are looking at now, ahead of the report that is due to be published in May, considers some issues about transition and the reasons that parents gave for deferring their kids' entry to school. We have been slightly

surprised by the findings, because most deferral decisions have been based on parental concerns about development. We expected that deferrals would be more common among more educated parents who would decide, "My child is too young to start school and they would benefit more from a later start." In fact, most of the decisions are fuelled by real concerns about speech, behaviour or some sort of physical health issue that is pushing them back.

I have concluded that it is hard to tell from the literature on age at school entry what is best. I am not sure that we have unrealistic expectations of children, but there is probably some scope to prepare them better for the move to school. By offering something better in the pre-school experience, perhaps we can ensure that, by the time children enter school, they are more prepared to do so.

The Convener: I welcome Gavin Brown back from his 35-minute natural break.

Gavin Brown: Apologies, convener.

The Convener: Paul Wheelhouse is next.

Paul Wheelhouse: I will touch on a couple of issues. First, I will reel back a bit to the methodology of collecting the data and selecting the children who were involved in the study. You talked earlier about that and mentioned that 130 data zones throughout Scotland had been selected.

We have received a lot of evidence about how we will rely heavily on the community planning partnerships in the implementation of preventative spending. How readily could the data that you have collected be used to inform the decisions of the 32 community planning partnerships? Are there any barriers to using the data in that way? Were there any particular differences in the outcomes that were experienced in the study, particularly at a local level?

Paul Bradshaw: The question about local-level data is another one that we are often asked. The study was not designed to produce data at a local level, but we have argued about its value with those who are involved in collecting data for community planning partnerships. We have had a number of conversations with them about it, because we can demonstrate from our quite extensive data set the expected outcomes for children who live in an area with high deprivation and high unemployment and, perhaps, in a lone-parent household. We can also demonstrate the different behaviours, experiences and circumstances that would benefit such children.

Those factors apply irrespective of where someone lives. Whether in a deprived area in Fife or one in Aberdeen, children in families with that

combination of factors would still benefit from the parenting behaviours and home learning environment that we identify as beneficial. That is the value of the study in assisting CPPs in developing interventions.

Paul Wheelhouse: I totally accept that and understand that that is what you set out to achieve. Is there any way that we can be a bit smarter about using the information that you collect to inform local decision makers about whether they are on track if, for example, there have been improvements in the samples that you have taken locally?

Perhaps you go to the same data zones. If the sampling is entirely random, the data zones might be different, which might make it a bit more difficult. However, if they match areas that are typical and representative of a geographical area and you are able to see whether there has been an improvement over time as the longitudinal nature of the study kicks in, that might help us to understand whether the measures that are being taken in an area are having the desired impact.

Paul Bradshaw: That would be difficult, because we do not have the numbers at the local level to demonstrate it. Obviously, we have children who live in all local authority areas but, in some of those areas, we may have only 60 or 70 families. We could pull out their data and say that, because families in Fife, for example, have been permitted to take advantage of a particular parenting programme since 2008, we will examine how their outcomes have changed. However, the statistical caveats that we would have to put on any such analysis would render it dangerous and mostly meaningless, so we have been reluctant to use the data in that manner.

However, there are some local-level possibilities. We release the data on selected health boards. If a particular parenting programme is being delivered in the Greater Glasgow and Clyde NHS Board area—which is the case, in fact—we could compare the outcomes of children in that area with the lives of children in the Lothians, for example. We can also make comparisons between children in some of the bigger health board areas and those in the rest of Scotland.

Alternatively, if local authorities have sufficient resources to collect their own data, and if they use the methods that we have used to collect ours, which are standard and well-proven ones, they will have a robust data set, which they can use to compare outcomes for their children against those for all other children in Scotland, who might not have been experiencing the same delivery of support. There are a number of options.

Paul Wheelhouse: So that alternative route could be used to inform local decisions.

Paul Bradshaw: Yes.

Paul Wheelhouse: That is helpful.

We have touched on attention deficit hyperactivity disorder. Is there any evidence that parents with higher educational attainment and perhaps higher income are more likely to put their children forward to be assessed for the likes of ADHD? Does that extra step that such families take lead to further divergence? Mark McDonald raised a similar point earlier.

Paul Bradshaw: Yes. We have a small amount of data that hints at that, but with the new birth cohort we are collecting better data, which will give us more of an inkling. There definitely is an indication that more-educated parents are more able to identify developmental delays and will seek help for their children earlier. Less-educated parents might be less aware of the speech or physical development stage at which their children should be at certain points.

Mark McDonald: Elaine Murray made a point about behavioural differences being spotted in children from less-advantaged backgrounds. Could some of that behaviour be due to undiagnosed ADHD or autism, for example? It might not necessarily be that the parents' behaviour is having an impact, but that they are not putting their children forward for assessment and there are, therefore, undiagnosed disabilities.

Paul Bradshaw: Absolutely.

Paul Wheelhouse: Both you and Donna Bell have talked about messages regarding behaviour and the symptoms of problems. How big an impact could the issue have on the delivery of teaching, particularly at the early years stage? Will it help to inform us in changing the approach? I am on the parent council of my local school, and have often seen how a change of teacher can have a dramatic impact on the outcomes for some of those who are seen as problem children. A change of approach, with perhaps a fresher view and teaching style and more buy-in to modern teaching methods can have a dramatic impact on individual children's performance. Have you picked up any key messages there?

Paul Bradshaw: We have not measured that. In our data collection, we have not asked whether there has been a change of teacher, but I agree that that could have an impact on children's experiences at school.

Donna Bell: In pre-school environments and early learning settings in primary school, the workforce is clearly the key measure of quality. We have invested quite a bit in the workforce in those environments to ensure that it is absolutely

up to date with the latest thinking in child development, modern teaching methods and engagement with children—exactly the matters that Paul Wheelhouse raised. We have done a lot of work on that in the past three to four years, and it is starting to pay dividends in the early learning environment.

Paul Bradshaw: As part of our dissemination programme, we regularly share our findings with all student teachers attending Moray house. Over the past two years, we have spoken to all bachelor of education and professional graduate diploma in education students. There has been a practical presentation on the study and on how to understand the findings, followed by workshop exercises on how the students might use the findings on a day-to-day basis when they become teachers.

We regularly attend and speak at local authority events for early years practitioners. We have spoken to practitioners in most local authorities in Scotland, so people who are dealing with children with those difficulties are aware of our findings.

Paul Wheelhouse: That is excellent. Thank you.

12:00

John Mason: Following on from what Paul Wheelhouse said, my question is about paragraph 3.1.1 in your briefing paper, which is on cognitive ability. I am interested in whether there were changes in the three cohorts. Some of the figures that are referred to are quite stark, such as the 18-month gap in vocabulary ability by the age of three, which persists during the pre-school year. Further on, the paper talks about the importance of early communication skills "at age 22 months", which is very young. Going on what has been said previously, if we produce more leaflets asking parents to come forward, that would tend to help the more educated ones; if anything, it might widen the gap. Might the gap widen or narrow in future?

Paul Bradshaw: We do not yet have data that allows us to look at differences in cognitive ability between the cohorts. That was not measured with the child cohort. We will look to measure it with the new birth cohort, but our first contact with them at age three will be next time round.

With the continuing focus on the importance of early years and the delivery of programmes to support development in the early years, I hope that the gap will not widen. I do not expect the gap to widen. I am not sure to what extent the gap will narrow, but I am optimistic that it will narrow in future.

Donna Bell: The committee has heard a lot of evidence about preventative spend. We cannot afford to see that gap widen any further.

The Government is doing a fair bit of work on early literacy and early communication skills. The play talk read campaign has a simple premise, yet when parents play, talk and read with their children it has an important impact. It sounds simple, but having those experiences fosters early communication skills at 22 months and when children make the transition to nursery. We also support bookbug, which runs sessions that are about parents reading and singing with their children. Bookbug is also a book gifting programme.

Those are practical applications for parents through which they can see the things that they need to do to improve their children's skills and abilities. We are beginning to be a lot more assertive with our outreach. For example, the Scottish Book Trust will be doing an assertive outreach programme over the next three years that will go to every local authority to engage with parents who are maybe not confident about doing those things with their children and to support them to try to narrow that gap.

John Mason: Are the initiatives that you are talking about largely targeted at the families that are most at risk?

Donna Bell: No. The bookbug programme is universal—it is for everybody in Scotland—although the planned assertive outreach programme will be targeted at specific areas or specific groups of parents who could do with that extra helping hand.

Marco Biagi (Edinburgh Central) (SNP): You mentioned policy interventions. The underlying motivation for the study is to inform how we try to improve outcomes. Do you measure at an individual level whether children access these sorts of services? You mentioned looking at an area in which a service had been offered. Can you make comparisons between those who take up services and those who do not?

Paul Bradshaw: We can do that to an extent, on the basis that parents are able to tell us that they are accessing a particular service. For the past couple of sweeps with the existing birth cohort, we have asked specific questions about involvement in parenting programmes, and particularly whether families have been involved in the triple P or incredible years programmes. We have not analysed that data yet, but the intention is to gather enough information on families who access those programmes to try to draw comparisons between them.

We have a lot of information about contact with services for general advice and for information on

and support with different aspects of child development, but we have only recently started collecting data on more specific parenting support programmes.

Marco Biagi: Is access to services more broadly, such as health visitors or specialist speech support, included in the data set?

Paul Bradshaw: Yes.

Marco Biagi: That is interesting.

Perhaps this is stating the obvious, but I suppose that the advantage of a large study like this is that it can find relative strength.

The direction of travel in early years policy making has been that we cannot easily do anything about the fundamental underlying wealth inequality, but we can try to provide support for parenting. How strong an effect will improved parenting have on closing the gap if the policies are successful in bringing that about? Paragraph 3.1.1 of your briefing paper states that stronger parent-child attachment, for example, is associated with improved vocabulary ability. How strongly does that close the gap?

Paul Bradshaw: That is difficult to say. Given the strength of different circumstances and characteristics, any robust measure of advantage or disadvantage, such as the level of parental education or income, will have a much more dominant effect than more minor characteristics such as parenting, so it is difficult to define the extent to which that will make a difference. What we know for certain, however, is that such characteristics can make a difference, particularly for children in disadvantaged circumstances. There are programmes that are capable of providing support for that and improving children's experiences.

Donna Bell: A lot of the international evidence and some of the evidence from Scotland suggests that some people in financially straitened circumstances are very good parents. We would not make a link between such circumstances and poor parenting. It is very clear to us that it is about what parents do, not what they are—we just need to remember that.

Marco Biagi: I am interested in how far it closes the gap when a parent from a family that lacks resources and faces lots of challenges is able to deliver better parenting. However, you are saying that you cannot really measure that at the moment.

Paul Bradshaw: We have not looked at that specifically in the context of the data that we have gathered thus far.

Donna Bell: The feedback that we are getting in our discussions on the parenting strategy is that,

although circumstances might be difficult, parents love their children and want the best for them, but circumstances can sometimes be so overwhelming that the parents do not have the capacity to provide that. In circumstances in which a lost shoe is the end of the world, it is the straw that breaks the camel's back. An awful lot of work remains to be done to give parents the capacity to get themselves to a point at which they are able to look after their children as they want to.

The Convener: I thank our witnesses for coming along and giving evidence. I also thank members for their questions.

On 22 February, we agreed to take the next item in private. I therefore close the public part of the meeting.

12:08

Meeting continued in private until 12:56.

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