



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Wednesday 26 September 2012

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FINANCE COMMITTEE
24th Meeting 2012, Session 4

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Gavin Brown (Lothian) (Con)

*Bruce Crawford (Stirling) (SNP)

*Michael McMahon (Uddingston and Bellshill) (Lab)

*Elaine Murray (Dumfriesshire) (Lab)

*Jean Urquhart (Highlands and Islands) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Professor David Bell (Adviser)

Colin Borland (Federation of Small Businesses)

Laura Brewer (International Labour Organization)

Garry Clark (Scottish Chambers of Commerce)

Donna Koeltz (International Labour Organization)

Michael Levack (Scottish Building Federation)

David Melhuish (Scottish Property Federation)

Alan Watt (CECA Scotland)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Committee Room 1

Scottish Parliament

Finance Committee

Wednesday 26 September 2012

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

Employability

The Convener (Kenneth Gibson): Good morning and welcome to the 24th meeting in 2012 of the Finance Committee of the Scottish Parliament. I remind those present to turn off mobile phones, tablets, BlackBerrys and so on.

The first item of business is to take evidence by videoconference from representatives of the International Labour Organization in Geneva as part of the committee's examination of the need to improve the employability of individuals experiencing high levels of multiple deprivation.

I welcome Laura Brewer and Donna Koeltz—I hope that I have pronounced that correctly. I ask you to introduce yourselves and I invite one of you to make an opening statement to the committee.

Laura Brewer (International Labour Organization): Thank you. I will just check that you can hear us at that end.

The Convener: Yes.

Laura Brewer: I work in the skills and employability department of the ILO, in the area of employability of disadvantaged youth. We are pleased to be invited to participate. It is not often that we get to work with developed countries; most of our work is in developing countries. I was particularly pleased to see that you had not only read our material but referenced it. I was impressed with your proposals to take the next steps and I look forward to making a few critical comments or suggestions but mostly to talking about a package of support that you have put forward that we may be able to facilitate.

Donna Koeltz is a colleague from the same department who works in the area of employment services.

Donna Koeltz (International Labour Organization): Good morning. I am the senior employment services specialist here in Geneva. That title entails dealing with countries on public employment services and private employment agency initiatives. Like Laura Brewer, I was interested to see the comments that you have gathered through your discussions and consultations over the summer months—you have really gone into a lot of the most critical issues.

I would be happy to present a couple of quick points to the committee in relation to where public employment services in particular can have some impact and influence on those issues at various stages in a person's career and preparation for a career. I can also provide you with some examples of how other countries around the world have organised their services in order to respond to employment needs in the most effective and efficient manner.

Like Laura Brewer, I appreciate the fact that we have been given the opportunity to be part of the committee's consultation.

The Convener: Thank you.

Laura Brewer: Did you want to move to questions?

The Convener: No. I would like you to make some points, as has been suggested, and we will go from there.

Laura Brewer: Although I work in the area of employability, particularly on skills for youth employment, we always need to reflect on the fact that there are not enough jobs. We need to think about what we are training young people for. It is important to keep them attached to the labour market—there is no question about that—but there is a great deal of frustration about the continuous training for nothing.

We need to think about creating employment and training opportunities in those sectors where youth have both an interest and an added advantage. Those tend to be areas of tourism, information and communications technology, the environment, the arts and sports. The areas in which we are seeing growth in the economy and big job creation potential are the greening of the economy, the health sector and the education system, so I suggest a focus on the potential that young people can bring to those areas. For example, how can social media impact on education? How can ICT be used in the health sector? When it comes to the environment, it is young people who are most aware and most interested.

We also need to think about opportunities for entrepreneurship, especially in areas of natural resource restoration, and about the steps that are involved in young people setting up businesses, such as opportunities for microfinance and the availability of loans, and also the number of steps that it takes to establish a business.

I am excited about the model that you have put forward. As you have said, it is important to keep young people in education, training or employment. Your model seems to be based on those who are already out of the formal system, although I note that you have not defined the

disadvantaged groups. One thing to keep in mind is that, although you might be dealing with those people now, you also need to think about delaying young people's exit from formal education, which requires flexible delivery systems, thinking outside the box, peer-to-peer teaching, courses such as outward bound initiatives and distance learning, although not just through a combination of books and the internet, which can be frustrating for people who have to sit for hours working under that approach. It is better for distance learning to allow people to contact others to ask questions through their mobile phones and so on.

The key is to identify the risk of drop-out early and address it before it happens. Donna Koeltz will talk about that. In providing a second chance at formal education, it is important to separate the cohorts. Sixteen to 19-year-olds can return to the classroom, but beyond that there has not been much success with return to the classroom, so other modes of delivery are needed. What happens too often with second-chance programmes is that there is a compromise on quality, because there is a desire to move people quickly through the system. That catches up with us eventually, because people end up in low-skilled jobs.

I could say lots about active labour market programmes, which are an area that you are focusing on. I appreciate your cost benefit analysis, but I have some points to add. Reviews of ALMPs always state that they are expensive and ask whether the outcomes are really worth it. Most of the studies focus on short and medium-term results and not on long-term ones. We do not look at the second generation, at intergenerational poverty or at intergenerational lack of education. Those factors have to be taken into the equation, as do other things such as the cost of a minimum security prison place for a young person, the cost of care and the cost of supporting people and their offspring later on.

The paper that you put together mentions an interesting model called Barnardo's works. The steps that it involves are useful, but it kicks in a little bit late, after the young people concerned have been out of the system for a while. It is essential that disadvantaged young people are not all grouped together. You should keep in mind that the 15 to 24 age group was decided on by the United Nations for keeping track, statistically, of young people and what they are doing, but we have seen that models that work for people from the age of 21 will work for people up to the age of 30. I know that you are saying that if we focus on youth, we will miss the next cohort. I do not think that there is a need to focus on the statistical categories of young people.

It is necessary to keep in mind that people's needs and learning styles are very different, depending on their disadvantage. The needs of a young pregnant woman will be different from those of a migrant with poor English-speaking skills. The ways in which someone learns will be different depending on whether they need community support or family intervention. The package of services changes slightly, but the important thing is the training part of it and how to focus it on the needs of disadvantaged people without seeing them as a homogenous group.

One of the best ways of teaching disadvantaged youth is what we call the learn, earn, save and invest approach. Learning while earning keeps young people interested and rewards them for what they are doing. We need to teach them to save the money that they make and invest it, because that brings it back into the community and the economy and results in young people making a better contribution on the ground.

I am happy to talk about technical and vocational education and training or formal apprenticeships if you have questions about that, but I did not see much mention of it in your paper, so I will leave it at that for now.

Donna Koeltz: I would like to talk about a couple of the points that Laura Brewer made in a bit more detail, particularly in relation to how public employment services and their officers can have an impact at various stages in the cycle.

It has been mentioned a number of times in your discussions that prevention is the first course of action and that it should be taken as early as possible. Along with public employment services around the world, we promote the idea that career guidance in the school system needs to be supported by information that public employment services officers have. We encourage a much closer linkage between the educational system and the staff who work in public employment services so that they can share labour market information that provides indications of what job opportunities are currently in demand and what job opportunities are projected to be in demand in the medium and—sometimes—the longer term, depending on what information is available in a country. We also want much better occupational information to be provided, which includes job descriptions, the activities that are typically involved in particular occupations and the educational requirements, as well as the anticipated wage levels and the opportunities for career advancement that exist in those occupations.

Young people need to have as much of that information as possible at the point at which they are in the latter part of their secondary school education and are planning for their further

education so that, in preparing for the workforce, they can make as informed a career decision as they can. That will ensure that, as they get closer to the point at which they want to enter the labour market, they will be able to take up positions that they will be happy with and be willing to remain in later in their lives.

One thing that we have found has worked extremely well in that regard is the inclusion in curriculums in many countries of on-the-job work placements for many students who are in the final two or three years of secondary school education. Such placements enable them to assess what it means to be a welder or a carpenter, or to work as a computer programmer. Such arrangements require very close dialogue between worker organisations and employer organisations, of course, as well as very close dialogue with the school system. Those linkages can be made with the assistance of public employment services, which regularly deal with all of those organisations.

10:15

Prevention also means ensuring that people who have got into the workforce are able to stay in it. That involves life skills training and, in times of economic downturn, reacting quickly and offering interventions such as short-time work programmes to keep people in the workforce, even at a reduced level of productivity, to ensure that they do not lose their skills.

A lot of research and evidence shows that young people tend to be much more vulnerable in economic downturns and that they are usually the first to lose their jobs. It is important that we do everything we can to prevent that from happening because, once they get into the unemployment ranks, it is much more difficult to move them back into employment.

The next stage of intervention is the stage that we usually think of when we think of public employment services: job placement activities that are performed for all unemployed jobseekers. Again, an early response is essential—that has been proved over and over—but that is not the only thing that is essential. We recognise that jobseekers come into the system with differing levels of ability and facing different types of barriers, so jobseeker profiling is important. Such profiling is common in Europe. It has different names in different parts of the world but, basically, it involves individual counselling and discussion with jobseekers to determine what types of barriers they face in order to assist them in developing a transition from school to work or from job to job. It involves an action plan that will suit their needs, which will include various labour market interventions and will look at their current

level of education, work experience—if they have any—aptitudes, interests and other activities. It is a matter of looking at the whole picture, and helping people to determine, from what they already have, an immediate job to which they can realistically aspire and identify where there may be gaps and interventions that can help to close those gaps and help them to move into higher levels of the same occupation.

The approaches that seem to have the most impact with jobseekers in general, including youths, are those that combine a number of different interventions in a package. That has been acknowledged in a lot of the responses to your consultation. I am talking about a combination of individual counselling to jobseekers to ensure that they are well aware of what they already have and what they will need, and labour market interventions. In some cases, job subsidy initiatives can be the perfect solution in dealing with educated unemployed youths. They can give employers opportunities with reduced wages or holidays from paying social security benefits to test the jobseeker's skill level and compatibility in their organisation. Well-targeted internships can provide the same opportunities. Internships can also be used in school breaks so that students who are still in the education system can learn a little bit more about the occupations for which they are training. That will help them to focus on the things that they need to fill the gaps.

Well-targeted public employment programmes, particularly those that have included some types of skills training and life skills training, have been very effective in moving young people into the workforce. In some cases, entrepreneurial training for people to start their own businesses can be successful, but we realise that many young people do not necessarily have the business background, networks or capital that they would need to successfully start their own business. Therefore, such training is often not necessarily the first choice.

I mentioned at the beginning that I would share a couple of delivery models. Many Governments around the world have realised that there are many things that need to be addressed and many groups of vulnerable workers with issues that need to be resolved. In most cases, however, they simply cannot afford to do all of this on their own and do not have expertise at the required level to deal with certain issues. As a result, many countries have looked at partnership arrangements with other stakeholders, both not-for-profit and non-governmental organisations and private employment agencies, to provide these services on their behalf to a certain degree and to some of the target groups.

I will give the committee two examples. In many countries, one of the most effective approaches has been a decentralised model in which public employment offices continue to provide the full range of services in large urban centres while in more outlying and rural areas agreements are reached with municipal offices, training institutions and in some cases private agencies to offer the same level of service on their behalf. In other words, the public employment service is actually provided by different external service providers. That can happen through a contractual financial agreement or, as in the Philippines and Argentina, through sharing training costs or providing access to electronic labour exchanges that Government offices have developed and used. Such an approach has proved to be very successful in extending outreach and ensuring that services are provided to those most in need.

Another very interesting model can be found in Canada, which has not only decentralised the delivery of many enhanced employment services to the provincial level but adopted a contracting-out process that involves many third-party service providers, many of whom have specialised expertise in issues relating to one or more of the target groups. In what has been a particularly effective approach, many NGOs and not-for-profit organisations provide services that deal with a wide range of issues faced by youth, from employment matters to other types of problems such as leaving school early, drug issues and interpersonal issues, all of which impact on their ability to find employment. The model has also worked particularly well with persons with disabilities.

I will end there, convener, but I am more than happy to answer any questions you might have about this area.

The Convener: Thank you very much for that comprehensive introduction. As usual at Finance Committee evidence sessions, I as committee convener will ask a number of questions to begin with and then open it up to other committee members. As time is limited, I will restrict myself this morning, which is something that I do not always do. I suggest that when they ask a question colleagues introduce themselves very briefly.

Ms Brewer, you talked about the importance of maintaining young people's interest and focusing on where they might have an added advantage. Given your comment that we should not consider them as a homogeneous group, do you think it more important to work one on one with younger people to find out their skills and talents, even if it is more costly than training people in groups? Is such an approach more successful in ensuring

that people end up in the mainstream labour market?

Laura Brewer: Are you going to ask a number of questions, or do you want me to respond to that one?

The Convener: I ask you to respond to that question, because I want to maintain the time that we have available. If I ask a couple of questions, I might restrict my colleagues' time.

Laura Brewer: I do not think that one on one is the way to go if we want to identify a young person's talents or interests. Those things are usually evident; there are young people in school who are much more interested in sports, music or fine arts or who are very good with ICT, but often schools cannot cater for their needs and there is no way of recognising qualifications for those things outwith the school system. A system is needed that can give credit to those who learn in different ways or who take on different activities. The issue is not identifying those talents but finding ways—in what is often a strict educational programme—of allowing them to come through.

A good example is the struggle in international baccalaureate degrees to get teachers for higher-level ICT programmes, because the young people on those programmes have more ability than those who teach them have. At the International School of Geneva, students have taught other students higher-level ICT. In such things, we know that the potential and interest are there, but the question is how to cater to that or how to acknowledge what has been learned elsewhere.

The Convener: We have taken evidence from people who say that 13-week or 26-week courses are not the optimum to provide long-term success for disadvantaged young people. What is the ILO's view on the optimum time for interventions?

Donna Koeltz: My view differs a little from Laura Brewer's response, because I think that more of an individual assessment is needed at the beginning to determine what such individuals need and then they can be placed in groups. We know that young people work effectively among themselves and that a lot of peer-group learning occurs. What matters is not so much the time that is involved as the combination of interventions that is offered. That depends on the type of training—on whether the aim is to develop life skills or a technical skill.

The problem with many disadvantaged youth is that they do not want to be involved in any one activity for a particularly long time, so a range of options needs to be provided to keep them interested, as Laura Brewer said. We must identify the barriers and come up with a plan of action with them that allows them to see how they will move from one step to the next and how all the different

steps will lead to much-enhanced chances of getting and keeping a job.

Short interventions should perhaps be coupled together in a package. The package might last far longer than 14 weeks; it could include self-assessment, formal training, workshops in which people deal with their peers, job-finding clubs and on-the-job work placements. The package could provide a range of things for a total of much longer than 14 weeks, although no one intervention would be that long—an intervention might last only a couple of months. I hope that that is clear.

The Convener: I open the session to colleagues. The first question will be asked by the deputy convener, John Mason.

John Mason (Glasgow Shettleston) (SNP): Good morning. I am an MSP for part of the east end of Glasgow, which is one of the poorer and more challenging areas of Scotland.

I was interested in Ms Brewer's point about what we train people for. Here, we seem to struggle with the fact that too many people are trained in things such as politics and not enough people are trained in engineering or ICT. Are other countries squaring that better?

Laura Brewer: No—well, the interest in ICT in developed countries is very high but, for many people, what is provided is not challenging enough. We limit the ICT and how it can be used. We do not innovate enough and we do not allow young people to innovate enough.

The best way to deal with ICT is to involve young people. We could brainstorm around the table and find that, lo and behold, young people have many other ways of doing something. Under corporate social responsibility programmes, businesses are asked what they can do to help young people. However, when we turned it around and asked a group of young people what they could do to help various types of business, the young people had many innovative ideas, which most of us could not even get our heads around.

10:30

It is not that young people are not interested in ICT; it is that the subject is not challenging in school. The European computer driving licence was about learning to use Word and Excel, which is not as interesting as learning how to get information from here to India through a mobile phone, to show someone how to do something—that is exactly how the United Nations volunteer service works; it is innovative about getting information to remote areas. That is where I think young people can have an advantage. It is an area that they need to understand better, to see that there is labour market potential for them.

John Mason: Thank you. I was interested by Ms Koeltz's saying that young people should do work placements while they are still at school, perhaps during the vacation. In Scotland, many work placements are for only one week in the school year. How long should a young person spend in a workplace, if they are to understand it?

Donna Koeltz: In Canada, for example, many technical courses include a full semester during which students are placed on a project—there are many charitable projects that do things such as build houses for disadvantaged people—and work on site with contractors and learn how to do the job. Of course, in certain places there are health and safety issues, and people have to be cautious about how much work they have the young people do, but the approach gives students an opportunity to see exactly what the job involves.

It is not practical in every case to have work placements that last a whole semester. One week is better than nothing, but a little longer would be better, to give young people the opportunity to see what it is like to have to be at work on time every day for a number of weeks and to report to a supervisor and so on, so that they learn time management and discipline. One week is nice, but it is not enough—just as a two-week holiday does not give people an idea of what it would be like to be unemployed or retired the whole time. People need enough time on the job to get a feel for what it is like. A week is just a taster, and students probably do not get into the details of what they would generally be doing if they were in that occupation—it would be more like a study visit.

If work placements are not possible, the employment services and education system can organise careers fairs and bring in business people and workers in occupations that are quite common in the community. A careers fair could go on for more than a day; it could go on for a week or two, or there could be a careers month, when young people have opportunities to get a better sense of what a job involves.

I have heard many stories from youth around the world who have spent a lot of time and energy being trained for a particular job only to discover that the job was nothing like they expected it to be, which led them immediately to look for a different lifelong career. That is such a pity. No one can afford to invest in something that is not what they want in the long run. The more we can do to help young people to learn about jobs, the better off we will all be in the long run.

Laura Brewer: It is important to remember that it is not about spending the holidays on a work placement—I am not sure whether that was clear from what Donna Koeltz said. The placement is part of the training programme and can happen in school time.

We had an experiment with the United Kingdom Government on what we called training passports. We looked at it in relation to the Olympic games, starting in China. The idea was to credit what young people learned when they did volunteer work during the Olympics. If we take that example to Scotland, when that young person is in the work setting for a week and then back in the classroom for a week and so on, it is about their commitment to that work, their ability to understand teamwork, their confidence to ask questions and to know when their place is to take the lead and when it is to follow. It is about time management and working with others. Those are the kinds of things that we think we can teach in a classroom.

Too many countries are putting in a curriculum on core employability skills, in which they try to teach things such as conflict resolution on the job and the work ethic. It just adds one more part to a curriculum. It should either be in the curriculum or be something that you do in the workplace. Employers now want that when people arrive—they used to be very happy to teach it when the person arrived, but that is no longer the case. It is important, however, to realise that that is not the way students should spend holidays, summer breaks and Christmas breaks. Such things are for actual training techniques.

Michael McMahon (Uddingston and Bellshill (Lab)): I represent a traditional working area in Lanarkshire, in which the industries were, formerly, steel manufacturing and coal mines. Educationists in the area have identified a trend over a period. If we look at cohorts of boys and girls, as they go from primary school to secondary school, there appears to be a pattern in which, while the girls continue on the trajectory that has been predicted for them, when the boys arrive at second or third year and are making subject choices in anticipation of their careers, attainment levels start to tail off. How typical is that? Do you have any examples of that from elsewhere? What was done to address it?

Laura Brewer: That is a common problem in areas in which there is a particular industry. In this case, with coal mines, the appeal would be greater for young boys than for young girls. That is the environment to which those boys are exposed and they realise quickly, from the communities in which they live, that they do not necessarily need to go on to higher education to work in the local industry. We therefore have to expose them to that which is beyond their local community, or within their community but in job areas that may require more—or less—education.

I ask someone what they want to do and they say, "I want to work in the coal mine because I need only this much education and I can make this much money. These are the hours I'd work. It's a

great job." If we then find 10 other jobs that are similar in the sense of how much education they would need—maybe a little bit more—and we put the portfolios in front of them, we realise where their interest really lies. They look at the number of hours that they would put in and what the career pattern would be. It is all programmed out. When they look, they immediately start to question what they want to do: "I never really wanted to work in a coal mine. I just know what it's like to work in a coal mine," or, "I know what it's like to be a teacher because I grew up in a family of teachers." It is about exposing young people to work that is outside the industries that are right on their doorstep.

Jean Urquhart (Highlands and Islands (SNP)): Good morning. I represent a very rural area of Scotland that has employment problems. My understanding, from reading the reports that we have here, is that low self-esteem and confidence are barriers to young people actively looking for work. Earlier, our convener asked about the support that is required for young people. The approach in Denmark, for example, in which individuals are involved on a one-to-one basis for a period with a young person seems to be successful. Do you have an opinion on that?

Donna Koeltz: I can give another example of where that approach has worked well. Low self-esteem and low confidence are definitely a problem for many young people. That can extend beyond youth to people who simply cannot move back into the labour force quickly. The example that I would like to share comes from Buenos Aires in Argentina, where a corporate social responsibility project was initiated by the employment service, which involved several large—in some cases multinational—businesses. Those businesses worked among themselves and with the unions to identify supervisors in various parts of their organisations and to offer a variety of job experiences. As it was a project to test how the approach would work, 200 young people who basically typified street kids were targeted. None of them was older than 21 or 22, but they were virtually already resigned to being permanently out of the labour force. They had dropped out of school early and had no idea what they wanted to do or what they should do next.

The young people were mentored one on one by supervisors and the companies provided the work experiences free of charge. The supervisors helped the young people to do simple jobs, but the whole idea was more about life-skills training and about helping the young people to see what they could do to bolster their self-esteem, rather than about giving them things that might be too challenging for them at the beginning.

The mentors also focused on what the young people could do if they had a higher standard of education, with the aim of trying to encourage them to go back into the school system. At the end of the six-month programme, more than 50 per cent—in fact, it was closer to 75 per cent—of the 200 young people went back into the school system, and many of them remained in close contact with their supervisors even when they went back into the school system. In some cases, the companies continued to allow the young people to come in on weekends and in their school holidays to work part time and earn an income. While they were in the mentoring programme, they were provided with subsidies through the public employment service programme.

The scheme worked well, although such an approach can be labour intensive. To make it work, it requires a strong link between the service agencies and private enterprises, as well as the full support and agreement of the unions. When that approach works, it is very nice and can change the pattern of young people's lives. It is labour intensive and the numbers are small compared with the total figures, but in my opinion every little helps to move things in the right direction. That can demonstrate how profitable the approach can be and it can perhaps encourage more employers to be partners in such initiatives.

Gavin Brown (Lothian) (Con): I am an MSP for Edinburgh—where the Parliament is based—and surrounding areas. I was taken by your comments on entrepreneurial training. You identified obvious challenges with that to do with networks, capital and business skills. However, some of the best entrepreneurs ever had no qualifications whatever and came from high levels of deprivation, but they just had a brilliant idea and the determination to make something happen. In your experience, how successful has entrepreneurship training been? Do you have examples of good practice that we might be interested in following up?

10:45

Laura Brewer: That is a good question; the subject is dear to my heart. I believe that we rely too heavily on entrepreneurship, as if it will solve all the problems. We have unemployment and there is no job creation, but we have the idea that everybody will become an entrepreneur, particularly in areas such as sub-Saharan Africa. It is not something that we have looked at in developed countries. I was raised to understand that less than 5 per cent of the population is capable of becoming or interested in being an entrepreneur. Can we really train people to become entrepreneurs?

The ILO has two training programmes in the area—one is called know about business and the

other is called start and improve your business. What I like about them is not that people start businesses at the end of them, but that they get young people to understand the labour market better. They are good tools for people to learn some core work skills and about what is involved in the labour market—how it works and how people can find niches in it. The programmes are about exposing people to opportunities and not about training people to be entrepreneurs. I question whether we can train people to do that.

When I taught on a master of business administration programme, I found that although people with Harvard MBAs were the first people to be hired, the big companies were frustrated because those people could never just give a spontaneous answer. They had to do all the research and background work first, and in the meantime opportunities were often lost. I do not think that it is necessarily possible to teach people to be entrepreneurs, but the programmes are a good way to teach them about the labour market and how it works so that they understand business better.

Elaine Murray (Dumfriesshire) (Lab): I am the member of the Scottish Parliament for the Dumfriesshire constituency, which is partly urban and partly rural.

I am interested in what you said about learning outwith the school environment, the learning that young people are doing for themselves and the problem of identifying and accrediting that. You mentioned that in connection with ICT skills, which many people teach themselves—they are not taught the skills at school, but acquire them elsewhere.

Entrepreneurship is another skill that many young people acquire for themselves rather than being taught it, and there are other examples in the creative fields. People also learn skills from vocational training, in the community or from working with their families, particularly in rural environments.

Are there any examples of how such learning can be recognised? I do not think that it is reflected in the way in which we accredit people, yet it is central, because there is nothing better than knowing how to learn for yourself rather than having to sit and receive wisdom from others.

Laura Brewer: I must say that that is an area that I know little about. We have struggled with how we can recognise and accredit non-formal training in relation to national qualifications and frameworks, for example. Employers often recognise such things without accreditation. In employer surveys, we see more and more that employers like to hire women who have taken time out from the labour force and have raised a family,

kept a household together and managed household budgets, because when they come into the workplace they have those skills behind them. However, nobody gets a certificate to confirm that they have managed a household and that they therefore have good management and finance skills.

We struggle with the issue. People in various sectors are considering non-formal and informal learning, and apprenticeship systems have come to the fore once again. During the crisis, we have had more and more requests for various forms of apprenticeship systems. They are based on models from Germany and Switzerland, but those have not been successfully replicated elsewhere. We are looking into opportunities to give credit for non-curriculum, non-classroom, non-formal education, but mostly we draw on experiences of that rather than give advice on the subject.

Donna Koeltz: I will say one more thing about that. Again, although it is not accredited learning, it is possible, when jobseekers work with employment counsellors, for them to examine, for example, what they have learned through volunteer work, from jobs and from the education system. Even young people who have never had formal work experience and women returning to the labour force after a period away can look at the types of competence that they have developed from different experiences in their lives and make those marketable abilities from which employers can benefit. Those are called functional curriculum vitae or functional résumés, whereby they can look at the broader picture of what the job will entail—again, occupational information will be useful—and translate what they have done in all the different aspects of their life and show how they are able to meet the requirements of the job without formal accreditation.

That is also useful for employers because they do not have to try to figure out what the person can do for them; the person comes in and is able to demonstrate not only their knowledge of what they are applying for but what skills they can bring. Laura Brewer gave an excellent example in the case of women returning to the labour force, because they will have, from trying to manage a family, developed a lot of skills including time management, conflict resolution and financial planning.

The Convener: Thank you. That has exhausted the questions from the committee. However, I still have something that I wish to focus on and ask you about.

There is a plethora of different programmes to try to assist disadvantaged young people and, indeed, older people in Scotland—never mind in the rest of the UK, Europe or the world. For us, evaluation is obviously key because there is a real

issue about having to compare one programme with another to see what is successful. We want to invest in programmes that have proved to be successful and effective, so evaluation of labour market programmes is fundamental. Do you have any models of good practice in that regard that you can share with us? Does your organisation carry out its own evaluations of such programmes around the world? Either or both of you can answer those questions.

Laura Brewer: As I said, most of our work is in developing countries and much of our work there is donor driven, and the donors often set the evaluation criteria. Evaluation is often difficult and it is expensive and time consuming, so donors are not prepared to put their money into that.

I noted the reference to the youth employment inventory. Through the inventory and the youth employment network, the World Bank collected and analysed data on many areas, one of which was employability. That is probably the most popular labour force programme by far. Unfortunately, there is always a focus on the supply side, but that is the way it is.

The reviews showed a lot of interesting information, which I see has been referenced in the committee's paper. What it does not do is look enough at ones that were done in Organisation for Economic Co-operation and Development countries. I suggest that there should be a focus on those—I think that there are 550 practices in there. The majority were from OECD countries, but that is not where we draw most of our information from. We have probably tended to ignore that and have looked more at sub-Saharan Africa and Latin America.

However, I think that there might be some good models in there. All of them have had an evaluation, and I believe that there is a synthesis report that talks about criteria for good practice. We look at lessons learned and at certain criteria that occur across different programmes and indicate success. Often, they cannot be replicated as is, but you can quickly pick up on those criteria that you must have, then innovate around that.

So, my proposal is to look at that area. I do not think that we have done enough work in that regard, because of the nature of our client.

Donna Koeltz: The fact that there is not enough empirical evidence available at the moment is a universal concern. In fact, delegates at the international labour conference in June who attended the discussions on youth employment prepared a call to action that highlighted the need for more empirical evidence on everything related to youth unemployment.

In Europe, there are a number of well organised groups. The PES to PES dialogue programme is

conducted under the umbrella of the European Commission, which sponsors various activities and offers encouragement to all the public employment services in the European Union and in the countries that are about to join the European Union. It conducts many peer reviews a year, selecting particular topics on which to focus. I deal quite closely with those organisations in a number of ways, including through the World Association of Public Employment Services. They are the institutions that play a key role in implementation of many of the labour market measures. They are always a good source of comparative data—which is not always scientifically gathered; sometimes it is more anecdotal—and of instances of good practice.

I know that you have done a great deal of research and consultation on this issue already, so you might have come across some of those organisations' websites. However, if you have not, I would be more than happy to share them with you, through the person who contacted Laura Brewer on behalf of your committee.

The Convener: Thank you. That brings us to the end of this part of the meeting. I thank Donna Koeltz and Laura Brewer for sharing their expertise in, and their insights into, this important issue.

10:57

Meeting suspended.

11:07

On resuming—

Draft Budget Scrutiny 2013-14

The Convener: Our second item of business is to begin oral evidence sessions as part of the committee's scrutiny of the draft budget for 2013-14. I welcome to the committee Colin Borland of the Federation of Small Businesses in Scotland; Garry Clark of Scottish Chambers of Commerce; Michael Levack of the Scottish Building Federation; David Melhuish of the Scottish Property Federation; and Alan Watt of CECA Scotland.

I have received apologies from Dave Moxham of the Scottish Trades Union Congress, who is unwell this morning and unable to attend.

As the meeting is in a round-table format, there will be no opening statements and we will proceed straight to questions. A couple of minutes ago, I advised Garry Clark that he would be kicking off the meeting.

Garry Clark (Scottish Chambers of Commerce): Cheers for that. [*Laughter.*]

The Convener: Paragraph 3 of the Scottish Chambers of Commerce submission states that the most effective way in which the Scottish Government could support long-term growth in Scotland's private sector is

"to ensure that capital investment is maximised and that the focus of such spending should be on enhancing connectivity, both in terms of transport and digital infrastructure."

I would like Garry Clark to kick off by expanding on that and explaining why it is important for Scotland's sustainable growth.

I will let people know about the meeting format while Garry is thinking about that. Anyone can ask a question of Garry or make a point. We will not go round the table so that everyone asks one question—anyone can come in at any time; it is just a question of catching my eye.

You may wish to move on to a different aspect of the draft budget or you may wish to comment on something that someone else has said—it is completely up to you. If you have a specific point on a comment that someone has just made, you might want to let me know with a sign that you will be asking a wee supplementary as opposed to moving on to something else.

You might speak three or four times in the next half hour, or you might speak once—it depends. I want everything to flow as much as possible. If things slow down, I will quote an aspect of someone's submission to move things on, as I did

with each of the six papers last week, but that might not be necessary.

Garry, the floor is yours.

Garry Clark: Thank you, convener. We are led by our members on this, and we look at the budget with the understanding that the Scottish Government has a limited pot at its disposal. The question that it must answer is how best that money can be invested.

Our members are of the view that, to deliver the best long-term benefits for the Scottish economy alongside short-term boosts, investment in capital infrastructure is an extremely important route. We understand the constraints under which the Scottish Government has been working over the past couple of years, and we welcome the fact that it has sought to maximise capital investment and to redirect revenue spend into capital spend in order to get the biggest bang for its buck.

I have singled out transport and digital technology for the long-term benefits that investment in both those areas will have. That is not to say that we should not invest in schools and hospitals, as was announced in the budget last week. The additional investment provides a much-needed short-term boost, particularly for the construction sector. We are all aware that the performance of the construction sector against other sectors has caused the return to recession this year. That sector needs a strong boost, and capital spend is the best way of delivering that.

That capital spend needs to be coupled with measures to ensure that as much of it as possible is spent here in Scotland on Scottish businesses. The Government is currently consulting on procurement legislation, which we hope will increase the chances of achieving that result. We hope that we can keep within Scotland as much as possible of the £9 billion procurement spend that exists in the public sector in Scotland to deliver the maximum benefit to Scottish businesses in the short term and to create the infrastructure that we all need in the longer term.

The Convener: All things being equal, you want expenditure to be focused on giving Scotland a long-term competitive economic advantage rather than on shorter-term capital projects.

Garry Clark: Yes. We want to use this opportunity to create the kind of Scotland in which businesses find it easier to compete, to connect and to do business. By delivering capital projects, particularly in transport and digital technology, we can move towards achievement of those goals.

The Convener: No one has indicated that they want to join the discussion at this point. Any twitch of an eyebrow will be taken as a sign. [*Laughter.*]

Gavin Brown is indicating that he wants to come in.

Gavin Brown: I thought that raising my hand might be more effective than twitching my eyebrow.

Garry Clark has touched on capital spend. One issue that was raised in the budget last week was the non-profit-distributing model of the Scottish Futures Trust and the £2.5 billion that will be allocated over an eight-year period. Schools were mentioned specifically in relation to that, but I understand that it will be 2014-15, as opposed to 2013-14, when the £80 million is accelerated. We hear the rhetoric about the NPD model, but what is happening on the ground in relation to it? I have heard Michael Levack talk about it in the past. Is there investment on the ground and, if so, to what degree?

Bruce Crawford (Stirling) (SNP): I appreciate Garry Clark's helpful comments. Like him, I will concentrate on the construction side.

Michael Levack's submission was pretty clear about his organisation's understanding of the impact of the reduction in capital expenditure based in Scotland on what can be done. I was intrigued by a comment in yesterday's media by Donald MacRae, the chief economist of the Lloyds Banking Group Scotland:

"Higher spending on infrastructure and capital investment projects would benefit this elusive recovery, which is highly dependent on a tangible increase in both consumer and business confidence."

Can Michael Levack or other witnesses comment on what other things we can do as a Government, apart from continue to lobby the UK Government to recognise the need for increased capital expenditure?

11:15

Michael Levack (Scottish Building Federation): We are comfortable that the Scottish Government fully understands the position of the construction sector and seems to be attempting to bring projects to the market. However, there are a couple of issues.

I am pleased about the First Minister and the president of the Convention of Scottish Local Authorities writing to all local authorities to ask about any shovel-ready projects—I welcome that. That action followed the construction summit that was held in Glasgow several weeks ago at our request.

We hear a lot about shovel-ready projects. How many projects are still stuck in the constipated public sector procurement system? Yes, we probably need more cash from the UK Government to filter down through the Scottish

budget, but we call on all local authorities and public sector bodies to ensure that all the projects that are on the wish list or the infrastructure investment plan—whether they are NPD projects or other projects—are actually coming to the market. Currently, that is not the case: progress is very slow in terms of projects coming out.

Progress is also very slow in what the Scottish Futures Trust has delivered on the ground. We want the momentum to increase, because only when the shovel goes in the ground do we protect employment and create apprenticeship opportunities. We have to look no further than the Scottish Futures Trust pipeline information, which was updated based on the best information available in July 2012. I will not go through the SFT document, “Revenue Funded Infrastructure Investment in Scotland”, in detail, but it is clear and concise. How many of those projects have a confirmed site start date? Not many. Too many of them have a start date that is yet to be confirmed or are due to start in the last quarter of 2013 or in 2014.

We are in a perilous state as an industry. We do not have a begging bowl out. We do not get grant funding per se—we are not a subsidised industry. All we want is work so that we can keep people gainfully employed and offer apprenticeship programmes. The simple answer is to get procurement moving.

We have the consultation on sustainable procurement. We have been waiting for a standard Scottish pre-qualification questionnaire for a number of years. We need to act quickly. We need to accelerate that process while complying with European Union procurement rules.

David Melhuish (Scottish Property Federation): The Scottish Futures Trust has a potential role to play in aiding local authorities to bring forward some of their unused capital assets and put them on the market. That would raise receipts that could perhaps be invested in infrastructure. It would also bring properties on to the market in often quite good locations, which would have the benefit first of getting them off the local authority’s balance sheets and secondly of getting them back into productive use in the market.

Property experts are saying that city centres are where a lot of businesses want to put staff. That is where they want to be now—not so much in the business parks; more in the city centres. A lot of those local authority assets are placed very nicely in city centres. The Scottish Futures Trust could perhaps look into that.

The Convener: Okay, thank you. Colin Borland, in your submission you say that we are not capitalising on small businesses’ potential to

expand. Can you talk to us about how we could best take that forward?

Colin Borland (Federation of Small Businesses): There are a number of key stages in the life of a business. Once it gets beyond start-up, one of the stages is probably when someone moves from their garage or their spare room into their first premises. There are some interesting things in the budget about bringing disused properties back into use. We will need to iron out the details—a few anomalies always crop up when we are dealing with non-domestic rates—but that is a particularly interesting move.

The other big stage in the life of a business is the move from being a self-employed one-man band to becoming an employer. There was the £15 million announcement in the budget on making it easier for small businesses in particular to recruit. We welcome that in principle, but we are going to have to work closely on the details. We have had job subsidy schemes before that have not really worked. They have been attractive to large public sector employers and not so attractive to our people.

Various other interventions around unemployment and youth unemployment have also been welcome, but they have not quite addressed the issue on the scale that we need to address it on.

Towards the end of October, we will be publishing a paper that tries to dig into some of these barriers because the fact is that the situation is a bit more complicated than someone simply saying, “Oh, this is far too expensive” or “This is far too difficult”. We know that for many people those are not barriers at all, so we have to find out what is preventing a sector with a fantastic record of employing people from taking on more employees. Some of the softer intelligence that we are getting has raised concerns about sustainability of employment and how businesses ensure that they do not take people on—or, indeed, take people from another job—and then pay them off three months later.

The Convener: I call Michael McMahon, to be followed by Elaine Murray.

Michael McMahon: I want to follow on from the convener’s comments by trying to tie the issue of small businesses to Michael Levack’s earlier remarks. When Scottish Enterprise came before us recently, it made the observation that only around 10 per cent of small businesses have the capacity to grow. If there is capacity to grow at that level, is it better to invest directly in those small businesses or to focus instead on the contractors who could subcontract to them? Should we skew the spending, if you like, towards bigger contracts

to ensure that smaller businesses can get a spin-off or some form of indirect benefit?

The Convener: As happened last week, just as Elaine Murray is about to come in, other people want to make supplementaries to previous comments. I will let Colin Borland and Michael Levack comment on Michael McMahon's question.

Colin Borland: Mr McMahon has asked a very good question about latency and the size of the latent potential. Some figures suggest that the net balance of firms that are seeking to reduce headcount and those seeking to take people on is moving in the right direction, but it is still slightly negative.

In the piece of work that I mentioned earlier, we are trying to dig into the issue and find out what exactly the demand is. For example, would an extra person be good for a business or is it as well contracting out? After all, that is a risk-free and, in some senses, attractive option. I will be interested to see what the report reveals, but if we are going to support expansion with public funds we need to remember that increasing staff or moving to become an employer is not like buying another van; it does not increase the capacity of a business in that way. Instead, it changes a business's character. Extra staff are not simply fulfilling orders or keeping up with work; they can be out making contacts, expanding the business and changing how it moves forward. For that reason, we think that the focus on employment and helping small businesses to realise that potential will probably create economic value.

Michael Levack: It is a very pertinent question. Whatever the cuts to budgets—and political parties can argue about the numbers—we need to get jobs at the coalface and the shovel in the ground.

There is an issue with the procurement process. In a recent quarterly survey of all our members, a significant majority of companies with an annual turnover of under £2 million said that they had basically opted out of public sector procurement. There might be a little private sector commercial activity, but the businesses that rely on and want to work with the public sector in the way that they have for decades are not now seeing the opportunities.

I have not seen any hard evidence that the bundling of contracts produces tangible results and benefits. There might be some headline saving on predicted costs and so on but, as far as the reality of employment is concerned, there is simply no evidence that local businesses are being allowed to flourish and develop enough to take on people and apprentices in their local areas. We have not got the balance right between bundling projects for efficient procurement and

allowing the development of small to medium-sized businesses, which might well be wary of subcontracting.

Elaine Murray: I invite the panel's responses to what is a slightly different question. In advance of the budget statement, the Cabinet Secretary for Finance, Employment and Sustainable Growth said that it would be a budget for construction. To what extent has he been successful in that objective? If you do not feel that this is a budget for construction—and if we bear in mind that Scotland has fairly limited opportunities to raise funding—what changes would you propose to give the construction industry more encouragement?

Jean Urquhart: I would like to go back to Colin Borland and the Federation of Small Businesses. I declare an interest in that I have an association with a business that is a member of the federation. The FSB has been very good at declaring what the barriers to taking on extra staff are for very small businesses or microbusinesses. I have been pounding on about that for a while. Do you see FSB as the conduit to help find answers to those barriers and make things easier?

Colin Borland: A number of concrete things could be done. Not 500yd from where we are sitting, some of your colleagues are taking evidence on the business gateway and the new contract for that. Depending on how that is drawn up, there is scope in the contract for support and tailored advice about when to take on a member of staff, whether it is right for a business and how it is done. Indeed, there is scope for account managing someone through that process so that it is done correctly.

Our view is that support is probably best sited in the business gateway. It would not be appropriate for the FSB to take it on, because we are very clear that we do not take public money. Some 95 per cent of our income comes from membership fees, which means that we are accountable only to our members. If we were to start to take public money—whether from local authorities or central Government—we would have an issue about our independence. Therefore, it is something that is better done elsewhere.

Jean Urquhart: I was not suggesting that the FSB becomes a Government agent. However, a lot of very small businesses would benefit from reassurance, and an interpretation by the federation of some Government agencies' information into what might be called small business-speak might not be a bad idea. A lot of members trust the information they get from the FSB. Do you agree that it could play that role?

Colin Borland: I am sorry that I misunderstood your question. Members of the FSB have, as a right of membership, access to a 24-hour

employment helpline. We have fact sheets that tell people how to go about doing things, and members know that there is a friend on the end of the phone who will tell them how to go about a particular move or activity. That is vital and crucial, but there is a step before that, where businesses have to become interested in taking people on. We can have all the tailored services we like, but if people are not buying they are not buying. The first rule of marketing is to create demand.

Michael McMahon: I will return to Michael Levack's point about bundling. I would like to bring in Alan Watt, as he is aware of my concerns about the process of bundling.

In my area, three separate projects were bundled together. On paper they all looked complementary and they fitted together quite well in terms of geography, but two of them were shovel ready, if you like, and the third was subject to a public inquiry. By putting the three projects together, they were all, in effect, held up. Sometimes that kind of practical decision making has not been conducive to moving projects forward. Does Alan Watt have any examples of that type of practical decision making becoming a barrier to his organisation seeing progress being made?

Alan Watt (CECA Scotland): It is a dual-edged sword, in many ways. There are economies in bundling projects together but, as you say, it comes down to the lowest common denominator: if part of a project is delayed for any reason, the rest of the bundle will be delayed.

The Aberdeen western peripheral route is an example of that: if it had been carried forward in three separate contracts, part of Aberdeen might already have traffic flowing—certainly to the north. We can see the sense in the long-term in putting projects together because of their maintenance, but the short-term sacrifice is that work is not available on the ground.

11:30

Elaine Murray asked about the construction industry's reaction to the budget, which was described as a budget for construction. I did not make a written submission, because I learned that I was going to be here only just before the draft budget was published, so I felt that it would be better to see what was in the draft budget first.

By the way, CECA stands for Civil Engineering Contractors Association. I should have said that at the outset.

Civil engineering is heavily dependent on public sector funding. Anything between 60 per cent and 80 per cent, depending on how the economy is going, is publicly funded. Two of our clients are

Transport Scotland, which accounts for 25 per cent of the civil engineering output in Scotland, and Scottish Water, which accounts for 20 per cent. You can see our huge dependence on decisions that are made in the Parliament.

The industry's reaction to the budget is that, if it holds the line—in other words, if what is in the budget actually happens—civil engineering in Scotland will stabilise. To come back to Michael Levack's point by a rather convoluted route, the bigger companies will start to deliver the bigger projects, leaving the small and medium-sized enterprises to deliver what they deliver traditionally and most economically.

If it all goes according to plan, civil engineering will stabilise. That is hugely dependent on the NPD model, the Scottish Futures Trust and the hubs for the Borders railway, the M8 bundle and the Aberdeen western peripheral route. However, there are a number of ifs within that.

Garry Clark: Jean Urquhart made a point about the role of business organisations in delivering some of the solutions. Scottish Chambers of Commerce works with the Government and public sector agencies on providing solutions for some of the issues. For many years, we have operated a business mentoring Scotland programme, which provides support to businesses that are looking to grow, expand and take the business to the next level. That might involve recruitment of additional staff.

We have also recently started working with the Government on delivering a pilot project that is aimed at getting graduates into graduate-level jobs. That got up and running at the beginning of the month and currently operates in Dumfries and Galloway, Ayrshire, Lanarkshire and Renfrewshire. One graduate has already been placed and five more are in the process of being placed, so the project is hitting the ground running.

I will comment on Michael Levack's point about getting projects that have funding attached to them up and running through the procurement process, to which Alan Watt just referred. At a meeting of our national council that I attended yesterday, there was huge frustration at the lack of progress on rolling out broadband connections in the Highlands and Islands. There is a really ambitious programme for that, but it does not look as though there will be any movement on it until at least next year. That is worrying. The Aberdeen western peripheral route was announced in 2003 and approved by ministers in 2009 but, of course, we are still waiting.

There are many programmes. We need to get them up and running quickly.

The Convener: I share your frustration about broadband, as my constituency includes two

islands within the Highlands and Islands area. I have been in regular contact with Highlands and Islands Enterprise about that. It has been a case of delay on delay, which is disappointing and must be addressed.

John Mason: Is the problem not the amount of money that is going into capital spend but the regulatory process? One or two people have made such a comment.

Are the witnesses happy with the idea that £200 million is switching from revenue to capital expenditure? Should it be more or less? From what Mr Watt said, it sounds okay.

Alan Watt: Yes. It is not growth, but it will certainly lead to a steady state within civil engineering. Civil engineering is only one sixth of Scottish construction, so I speak only for part of the sector.

Transport Scotland and Scottish Water, with whom we deal regularly, are good at telling us what is in their forward programmes. I have checked with them that their budget provisions are adequate to deliver what is in their programmes.

Michael Levack: I do not want to start dropping into the figures but, although we welcome all the Scottish Government's efforts to prioritise capital spending, we point out that the latest spending plans show a net reduction in capital spending of some £5.7 billion or 25 per cent between 2009-10 and 2014-15. I fully appreciate that things might not be different if a different political party were in power or if we did not have a coalition Government, and that those are just the facts of the position that we are in. In addition, I appreciate the fact that demands continue to be made for further finance from the UK Government. However—this brings us back to the point that Elaine Murray asked about—the construction pipeline of work is not due to start until well through 2013. That is what caused concern at a recent meeting of our major contractors forum: the work is just not coming forward quickly enough.

We often hear about leadership—that we need people to take a lead on things and we need people to be entrepreneurial and to take risks. That is what we need at the moment. There are just too many projects in the infrastructure investment plan that are being held up for some reason or other. It might be difficult for the Scottish Government to unlock a project such as the Aberdeen western peripheral route, which is going through various legal challenges in the courts, but there are many other projects on which there are just too many excuses for delay in procurement or, indeed, cancellation or postponement.

The IIP that was published at the end of last year predicts that revenue and capital expenditure will not return to 2009-10 levels until 2026. That

must be extremely worrying from a business planning point of view for any business of any size that is looking to find a potential marketplace in the Scottish construction industry, where the opportunities for export are extremely limited. It is critical that we have action now.

John Mason: Can I just press you on how much of the issue is to do with finance and how much of it is to do with regulation? It is clear that money has been allocated to some projects for 2016, so they will happen in 2016. Are you saying that there are many projects to which money has been allocated for this year or next year, but which are being slowed down by regulations, planning and so on?

Michael Levack: It would certainly appear so from the information that we are given, from the IIP and from the update that the Scottish Futures Trust publishes.

The original consultation on the SFT was scant on information and detail. We supported the SFT having a central function to facilitate the procurement of larger and more complex infrastructure projects, but things are just not moving at the pace at which we need them to move to protect jobs and to sustain employment and apprenticeship training. In comparison with the sector anywhere else in the UK or with any other sector, the Scottish construction industry has a record that is second to none in training apprentices and providing a high-quality four-year apprenticeship, but we can take young people on only if we have some confidence in the work that will come through the pipeline.

The Convener: I intend to let Gavin Brown and Bruce Crawford in, but before I do so I want to mention something that David Melhuish said in his submission. He said:

“A major planning application will be scrutinized by an array of public sector agencies and authorities and on occasion directly by the Scottish Government itself. There are a number of reasons why this is the case”.

He mentions the long-term implications of development and so on. He goes on to say:

“such regulation can also restrain and constrain the contribution of the property industry”—

and, of course, the construction industry—

“to the economy and SPF members believe that there is still considerable room for improved co-ordination and reduced regulatory demands”.

In my constituency, money has been allocated to construct a bypass from the financial year 2014-15, but Transport Scotland has said that that assumes that there will be no public local inquiry. The design is all ready—there is not a problem in that respect—but even if the consultation goes well, if someone locally throws up a hand grenade

and objects, the project could end up being put back. That is another area in which the Scottish Government does not necessarily have all the controls. In the event that such an objection materialises, all that it can do is have ready projects that it can roll with, to which there is not that level of objection.

I am sorry—Michael Levack wants to respond.

Michael Levack: That is why we are very pleased that the Scottish Government supports the proposed cut in VAT on repair, maintenance and improvement to 5 per cent. That issue sits with the Treasury, of course.

Equally, that is why we need to divert more money to increase energy efficiency in existing stock rather than beefing up regulations for new build when we are building so few properties and commercial buildings.

It is within the Scottish Government's gift to divert a fairly modest amount of money to supplement existing investment in energy efficiency measures. One could argue that that would not be subject to regulatory delays, and could be used to protect employment, as well as apprenticeship training, which is important.

The Convener: Four people want to come in. I will take Gavin Brown and Bruce Crawford first.

Gavin Brown: My question is on a slightly different issue, so others can go first.

The Convener: Is Bruce Crawford's question on this point?

Bruce Crawford: My point is on the gap that Michael Levack identified between expenditure a couple of years ago and expenditure until 2026. Nobody in this room can really address that issue—it must be addressed somewhere else.

What can we, as Scotland Ltd, do to persuade the Chancellor of the Exchequer that the only way to fill some of that gap is to understand the importance of capital expenditure and how we can best deploy it?

From my understanding—I need to check that I am right—an additional £30 million was put directly into energy efficiency measures in the budget process, which, I hope, will deal with some of the issues that Michael Levack raised.

David Melhuish: I want to put that last figure into perspective. The cost for retrofitting one superstore—not even to modern building standards, I am told—was £2 million. The actual cost in terms of potential impairment of value and the impact on the financing and viability of sites still remains to be seen. That said, the Scottish Government has introduced an operational ratings option, which is welcome.

The convener quoted my comment on the regulatory process, which is true. We are aiming for better co-ordination in pulling together the various consents at the beginning of a planning application. We need better co-ordination between local authorities and agencies, and we accept that developers have a role to play in putting information up front.

If the system can be cracked, we can reduce the time that the process takes; in some cases it is 18 to 24 months before we see shovels breaking the dirt. The emphasis is not on trying to get past the regulatory system, but on making it more efficient.

Gavin Brown: I want to widen out the discussion to seek our witnesses' observations on the extent to which the budget is a budget for growth. All committee members have received a paper from our adviser Professor Bell, in which he concluded that an important issue for the Finance Committee to consider is

"The argument that this is really a budget for growth, when the main beneficiary appears to be resource spending on health."

I will throw that out to our witnesses, and ask them for any observations on the question of overall growth with regard to the budget.

Elaine Murray: There are two issues. One is the problem with the SFT and the slowness of the pipeline. Does anybody have any indication of what the problem is? If it is not just about regulation, is it to do with the financial model and the difficulties in getting the funding in place to progress those projects? Does that need to be addressed in some way?

The other issue concerns the investment in infrastructure. There has been a significant cutback in the Edinburgh to Glasgow improvement programme, which was funded through borrowing from Network Rail rather than through the capital programme. Are we missing a trick in not exploiting the advantages and opportunities of those alternative mechanisms for supporting infrastructure?

Colin Borland: I want to come back to Gavin Brown's point about the extent to which the budget is for economic growth. When we look at the figures, it seems that the overriding issue for the past year or so has been consumer confidence and the impact that it is having. Until we address that, we will not address the wider concerns. Figures that were released this morning show that the lack of consumer confidence is now feeding into the industrial sector, so business investment is forecast to drop.

The solutions to that are many and varied. If there was a simple answer, we would have found it by now. However, one thing that we must do is address the issues of jobs and confidence. It does

not take an economic genius to work out that, if people are worried about losing their jobs or have lost their job, that will have an effect on the wider economy. For that reason, that issue will certainly be our primary focus in the coming months and we urge that it should be the focus for policymakers, too.

11:45

Alan Watt: The convener asked about barriers, and Bruce Crawford touched on that. We have discussed public inquiries. I want to put down a marker that the process that the Aberdeen western peripheral route has gone through should never happen again. A minority should not be able to delay a project of that magnitude for as long as it has done. I am probably preaching to the converted, but that is worth saying.

The Convener: Thank you for that point.

John Mason: I want to follow on from the issues that Gavin Brown and Colin Borland talked about. The SCC submission discusses the focus on sustainable economic growth and states:

“It would be even more welcome if government policies, including budgetary commitments, were measured against this Purpose.”

I wonder how easy that is in practice. The exchange that we have just heard suggests that the issues are more about confidence than about where we spend the money. My simplistic view is that building houses is the best thing that we can do and that building transport infrastructure is the second best. Some people suggest that spending on the health service is perhaps not so good.

Garry Clark: It is probably no surprise that none of us has come up with a measure that will match each and every budget with the Government’s stated central purpose—that is difficult to do. However, we need to move towards that and find some way to measure how individual provisions in the budget make progress towards achieving the central purpose. We know what the central purpose is and we are all behind it, but we need to measure our and the Government’s progress towards achieving that purpose.

To come back to an earlier point, I agree absolutely with Colin Borland that prioritising the creation of employment is crucial to achieving that central purpose. There are many routes towards that, some of which are revenue based while others are capital based. At the end of the day, the issues of having people in work, employed and productive, having successful businesses and growing our economy are all part of the same equation. In that part of our submission, we discuss whether there is a way in which we can measure progress towards success.

John Mason: You are asking a question, rather than making a statement. Are you asking whether it is possible to measure that, or are you saying that you believe that it is possible to do so and the Government is not doing it?

Garry Clark: It ought to be possible, but work needs to be done to find the right solution, and a simple solution that everyone can understand.

The Convener: I see that Colin Borland is champing at the bit.

Colin Borland: I just wanted to say that a common theme seems to be emerging from people who have experience in sectors that are worth far more money than we are used to dealing with. The common theme seems to be that the amount of money is not as important as the execution. If the execution is right, we stand a better chance of delivering what we all want. That requires a focus on the actual businesses that make up the majority of our economy, rather than the ones that certain people might wish made up the bulk of our economy.

Michael Levack: To suggest that this budget, or any budget at this time, could be a budget for growth in the construction sector is out of touch with reality. Many construction businesses are in survival mode or, at best, recovery mode. We have to get that message through, because when we hear political rhetoric and announcements from any political party to suggest otherwise, frankly, that hurts people who have lost their businesses.

As Garry Clark said, we must look at the wider economic benefits. We appreciate that we have only X pounds to spend, but we need to get moving with that. When we bundle contracts together, we should not simply be thinking, “Well, this will save us 10 or 15 per cent.” Some of the savings claimed by SFT over the past three years range from £120 million to £150 million per annum. Yes, the figures have been validated by third parties, but let me make a simple analogy: it is like me claiming to save £3,000 per annum because I do not smoke. Given that I never smoked in the first place, I am technically not saving that money—I am just not spending it. When we bundle contracts together, we must look at the theoretical financial benefit. After all, construction is not like buying Coca-Cola or toothpaste—it is not a case of buy two, get one free. We must find a simple mechanism for considering wider economic benefits before we make essential decisions that affect employment and can therefore stimulate growth.

David Melhuish: As a supplementary to your point, Mr Mason, I point out that the Transport Scotland study suggests that current trunk road capacity can support nearly 80 per cent of current planned housing allocations. As a result, there is

scope for the existing infrastructure to cope with the choice that you suggested between spend on housing or transport. Of course, that does not cover the issue of health, which you also mentioned, but there is more capacity than is commonly believed to build more housing without upsetting the transport infrastructure.

Alan Watt: As much of the discussion has made clear, the proposed procurement reform bill is intrinsically necessary. Obviously, it will take time for it to go through—it is at the consultation stage at the moment—but a lot of businesses in Scotland, certainly those in my sector, are looking to it to provide long-term salvation for indigenous businesses. So many things are tied up with tidying up procurement and, indeed, various local benefits can be gained through using local providers instead of going for the cheapest price or incoming people. The procurement reform bill should cover those matters and we cannot wait for it.

Michael McMahon: Coming back to the point about evidence gathering and checking outputs as much as inputs, I wonder whether Colin Borland wishes to comment on the small business bonus scheme in that respect. No one will disagree with moves to support small businesses, but counting the number of small businesses that we have and the number that receive the small business bonus does not tell us the number of jobs it has created or the number of businesses it has kept afloat in these difficult times. How do we get that information? As the committee has found repeatedly, regardless of what sector we are looking at, if you spend public money you need evidence of the impact of that spend.

I am using the small business bonus scheme as an example, but there are many such examples. It is not enough just to count the number of people receiving it; we need to know what impact the money has had on small businesses so that we can ensure that it is being used effectively and that it is not being given to companies that would never have survived anyway or companies that are doing okay. For want of a better example, the owner of a small business told me that his company was doing fine and that he used the money he had saved on his rates on a nice golfing holiday in the Algarve. That is hardly what you want to spend public money on.

The Convener: The gauntlet has been well and truly thrown in your direction, Colin.

Colin Borland: Indeed.

On the first question, we will be able to find out the impact of the small business bonus only by asking as many people as possible how their business is working and what the impact has been. The last time we did work of any scale on

this matter, we found that it had made a difference between survival and failure to one in eight recipients. That is a significant number, although I admit that that was during the very difficult period at the height of the credit crunch a couple of years ago, and we are looking at the issue again to find out just how many businesses the bonus is making a difference for.

In respect of that one in eight figure, it is difficult to say how many businesses receive the bonus. We can look up the number of properties that do so, but even if we knock the total of 85,000 receiving the bonus down to about 80,000 we are still talking about 10,000 businesses. Given that our average member employs about 7.5 members of staff, it is clear that the bonus has saved a lot of jobs that would not otherwise have been saved.

The small business bonus is in essence a tax threshold, so you need to start modelling what might happen if you moved that threshold up or down and what impact it would have on the tax take. Given that getting rid of all small business rates relief would impact on collection rates—for a start, businesses would go out of business and would therefore not pay any rates at all—we would need to consider such a move in a bit more detail. We also need to look at other reliefs operating alongside the small business bonus; for example, if we were to adopt the same model for charitable relief and simply stop it tomorrow, one would assume that all the charities would keep going, which means that we would get more from stopping charitable relief than we would from stopping the small business bonus—on the assumption, of course, that everyone stayed in business and that the extra money was collected.

There is a lot to model, but you also need to listen to what business owners are saying. Some might make a frivolous remark about going on a golfing holiday in the Algarve, but I would be surprised if that was actually happening. In fact, at the weekend, I was talking to a couple of businesspeople, one of whom has not paid himself for six months—and he has a baby. He said, “I’m paying the staff and keeping the roof over their heads and I’m paying my bills, but I am not paying myself.” With gas bills going up 20 or 30 per cent, rents and other overheads increasing and footfall going down, the bonus is making the difference. We should, by all means, explore the scheme, but we tinker with these things at our peril if we do not first have a really good think about what we are doing.

The Convener: Do you want to come back on that, Michael?

Michael McMahon: I use the small business bonus only as an example. The inability to determine the outcome of something because it has not been measured is a theme that has come

up repeatedly at committee. There is no evidence to say that by spending X we get Y. We count how much we spend and look at whether the number of people who are receiving that spend is increasing or decreasing, but we do not know whether we are getting the intended outcome or whether there might be better, more targeted ways of achieving the same outcome.

Garry Clark: I agree with Colin Borland. I do not think that businesses will object to an assessment of the small business bonus scheme's success. I have already mentioned a number of the contract delivery projects that we are involved in; business mentoring Scotland, for example, reports back annually to Scottish Enterprise and Highlands and Islands Enterprise on how the turnover of the businesses with which we have engaged has increased, on the new jobs that have been created and on other forms of positive growth. The programme has been operating in one form or another for 10 years now and if it had not been successful we would be doing something else.

We are also looking at getting 100 graduates into employment this year through the graduate recruitment incentive. That is the measurement that we are using. We would have no objection to looking at Government policy and finding out whether, say, the small business bonus scheme is achieving the desired result and what results it should be achieving. I have not come across some of the more exotic examples that have been mentioned; I am not saying that it does not happen, but the anecdotal feedback that we have received is that the savings are largely being reinvested in the business or being used to employ staff.

Colin Borland: We have tried to measure the impact of the small business bonus; after all, that is where the figures that I mentioned come from. We know that it has made a difference between survival and collapse and has allowed other businesses to reinvest. The figures are there, and they have not been contradicted in any meaningful or credible way. In the absence of anything else, the scheme has been a success.

John Mason: FSB has made a number of comments about skills and employment, suggesting that some of the national criteria are a bit wide—I think that the word “rigid” was used—and that they need to be more local and focused. What specifically can be done to help in that respect? The suggestion is that businesses out there want to expand; if we could provide better help, they would, but the present system is not working.

12:00

Colin Borland: There is a disconnect between some employability initiatives and the sort of jobs

that are available. The majority of businesses in Scotland are small businesses and the jobs that they have do not fit as neatly into boxes as those in a public sector organisation or a large public limited company might do. In a typical job in a small business, although someone might be employed as a forklift truck driver they might also take orders, be a delivery driver, be in charge of health and safety and their job might have many other aspects. It is difficult in those circumstances for an employer to say, “I want to take on an apprentice to discharge this type of job.” There is not a sector skills council that can give the person the appropriate information.

When we design initiatives to make it easier to employ people, we must take into account the job market and what most jobs are about. We should move away from the rigid approach that was perhaps appropriate 20 or 30 years ago and which might also make perfect sense to me if I was designing the initiative and worked in a large organisation. The initiatives must be designed around the jobs that exist.

Gavin Brown: I will ask about a comment that I think I saw in a Scottish Chambers of Commerce press release just after the budget. I could not find the comment again, but I am pretty sure that that is where I read it. The press release raised some concerns about the increasing percentage of the Scottish budget that is made up by non-domestic rates. Does Mr Clark want to expand on that point?

Garry Clark: We made the point that it is projected that there will be an increase of about £500 million in the business rates take between 2011 and 2015. Given that overall budgets are at best static and that there are real-terms reductions in current budgets, our members are acutely aware that they are essentially paying a larger share towards the overall spend in the Scottish budget. We believe that that can go only so far before it becomes unsustainable; it cannot go on for ever. We must look for a more equitable way of allocating finance to ensure that non-domestic rates play a proportionate role.

We have had some frustrations in recent years following the abolition of transitional relief back in 2010, which resulted in a system shock for many businesses because of the level of increase that they faced over a very short timescale. The situation has stabilised in subsequent budgets, although there are moves to take additional pots of money from business elsewhere, such as the change to the system of empty property rates relief. We share the overall objective of the measure, which is to try to get our town centres working and occupied again, but we query whether that is the best way of going about it.

I know that the committee has queried vigorously the Government's calculations that show where the £18 million that the change to empty property relief is projected to raise will come from. The money seems largely to be coming from the taxation of existing empty properties, rather than from the policy producing a meaningful, positive result by getting our town centres occupied again.

More information has been released this week about the incentivisation scheme to get businesses into town centre properties, which was announced last week. It is a step in the right direction, but we have some queries about the overall increase in the business rates take more generally, which is fairly relentless year on year.

The Convener: We will also look at property rates in some depth, but we interrogated non-domestic rates quite intensely last year. If memory serves me right, the expected increase in revenue was from inflation; in other words, there was no real-terms increase for existing businesses and, if the projected growth in the sector did not happen, that would be underwritten by the Scottish Government.

Professor David Bell (Adviser): Exactly the same argument is going on about benefits at the moment. What is the appropriate price index to use? The retail prices index is being used now. People's earnings used to go up faster than the RPI; now they are growing considerably more slowly and it looks like there is a move to push benefit indexation on to earnings rather than on to the RPI. The RPI is at the top end of possible choices for indexation at the moment. I do not know whether that is a sentiment that Garry Clark shares.

Garry Clark: I understand the point that you are making. To some extent, the Scottish Government is a victim of circumstances. The Scottish Government decided to get rid of transitional relief back in 2010, but the transitional relief issue coincided with a revaluation in business rates that was based on 1 April 2008, which was the last point after 10 to 15 years of consistent growth in the Scottish economy.

The Scottish economy then falls off a cliff, it begins to recover, but in 2010, when the rates increases come in, which are based on rateable value at the top of the market, they hit businesses that are at the bottom. It is difficult for businesses to be sustainable, particularly given the abolition of transitional relief, which would have cushioned many businesses from the impact of the increases. The accident of the dates is beyond the Government's influence; the decision on transitional relief was within the Government's influence.

Businesses face a unique coincidence in that the RPI rate that was being used to calculate business rates increases this year was 5.6 per cent, which is the highest rate in more than 20 years, but when the rates increases came in, RPI was down at about 3.5 per cent; it is now down at 2.9 per cent. Businesses look at that and say, "I am faced not with an increase that is in line with inflation but with an artificially high increase, which is based on one month's spike figure." However, that is the figure that Governments north and south of the border use.

In both cases, an accident of timing has had a material effect on business.

David Melhuish: I attended one of your members events in Aberdeen. The minister does not have to increase rates in line with the RPI every year—that is a decision that he makes. There is an in-built problem, in that by the end of a revaluation period a business could be paying something like 20 per cent—in terms of the poundage—more than they were paying at the beginning of the valuation period, because of the indexation.

That will be a particular problem next year, when we have the revaluation results, because for once we might find that rateable values have gone down, which I think would be for the first time since 1990. That could pose questions for the minister, in light of the commitment to match the poundage rate in England. There are in-built problems in the system, which are likely to come to the fore.

The Convener: Your points, along with many others that have been raised today, give us food for thought about how we will interrogate the cabinet secretary when he comes before us.

In its submission, the FSB said that it has been "highlighting the need for economic stimulus, to ensure Scotland remained competitive and returned to growth."

We have had extensive discussions about capital. What other stimuli are necessary?

Colin Borland: We have touched on some things, particularly the procurement reform work that is going on. There are particular concerns to do with large construction projects, but the sort of work that our members are involved in with local authorities and other public bodies will become more important, particularly in the context of guaranteeing cash flow for smaller businesses.

When we consider procurement reform we must consider the wider economic impact of decisions. I accept that that is difficult for legislators, because, although the Parliament can put something in primary legislation, what we really need is a culture change at purchasing manager level. It is about how we give purchasing managers or

people who are devising a purchasing strategy the confidence to take a longer-term view, because if that was my job and my boss was telling me to take 10 per cent out of a line that year, I would take 10 per cent out of the line. The fact that doing so might weaken the local economic base and make other people's costs go up, because of an increase in unemployment or because less business would be done in the town, would not matter to me, because I had been told to take 10 per cent out of the column.

There are ways of thinking about the issue, particularly for local authorities. Consideration could be given to how much of the non-domestic rates income—or increases therein—authorities could keep if they took such longer-term decisions. Authorities could be given an assurance that they will not be officially sanctioned for wastefulness or whatever if they pursue such strategies. However, I accept that trying to effect the culture change on the ground that I described will be difficult, particularly if the initiative comes from the centre and works its way down through several levels.

The Convener: Does anyone want to make a further point before we start to wind up the discussion?

Michael Levack: We have not touched on the budget's implications for housing, apart from in the context of switching funding towards improvements in energy efficiency in the built stock, as opposed to continually beefing up building standards for new build. We welcome the £40 million that will be put towards affordable housing in the next couple of years. However, we are at record lows on completions and outcomes. We must address that.

We hear about innovative funding schemes, but whenever there is a public sector funding announcement I simply divide the number by 32. I appreciate that that is crude and that not all local authorities are the same size, but we must put the measures in context and think about how they will apply to any single local authority. Sometimes when we think about that, the large figures become pretty small.

I appreciate that funding is not necessarily allocated on that basis. However, we must find a way of increasing the volume of house building, because if we are not already at crisis point, we will certainly get there in the next few years.

The Convener: Is the issue that the house-building sector has shrunk dramatically? Five years ago, there were four private constructions for every construction in the public sector, whereas now the public sector accounts for a disproportionate share of house building, because the private sector is in such a difficult situation, not

least because of people's difficulties in obtaining mortgages.

Michael Levack: We have to be careful when we talk about the housing market, because the market is made up of a range of players. Scottish Building Federation members are very much the second and third-generation local businesses, who employ local tradesmen, take on apprentices and build a fairly modest volume of houses in their own back yard. They were swept along with the volume house builders and big players when the property crash happened and the banking system changed.

We have to rebuild that sector. If we want sustainable economic growth, there must be more focus on supporting Scottish local companies, which cannot participate in many of the innovative funding streams, because in the context of complex funding models they need legal input and more support from banks, which they will not get. It tends to be the larger players who can move forward and get involved in new funding models.

The Convener: You imply that we need to invest more money in affordable public sector housing. Is that correct?

Michael Levack: I do not think that any member here, whatever their political party, disagrees that there is a need for that.

The Convener: There are limitations on capital spending in the budget. Garry Clark talked about spending more money on connectivity and expanding the roads network, which would bring greater long-term benefit to the Scottish economy. An additional £200 million is being switched from resource spending to capital spending, but increasing one side means that we must reduce the other, all things being equal. Where should the balance be struck?

12:15

Michael Levack: That is a difficult decision, and the finance secretary has to make it. However, people need a roof over their heads, not broadband—I appreciate that it is not as simple as that. It is important that we do not get into choosing between existing stock and new build: we need both.

Somebody referred earlier to town centres in the context of business rates and so on. I think that it was two budgets ago when some funds were put towards investing in town centres and most of it went into hard landscaping. That is okay, but most main streets and high streets in Scotland are full of coffee shops and charity shops, with empty properties above. We must be innovative in finding ways to fund developments to make those into usable homes.

The Convener: You commented earlier on something that I have supported since I became an MSP in 1999, which is a reduction in VAT on repair, maintenance and improvement to 5 per cent. I know that doing that is not within the Scottish Parliament's competence, but what kind of boost do you believe that that measure would give to the construction sector in Scotland? You and I have discussed that personally, but I would like you to inform the committee.

Michael Levack: The measure would provide a significant boost. I am happy to provide the quality evidence that we have gathered over recent years to the committee on what such a VAT reduction would create. We talk about measuring income, inputs, outputs and so on for a lot of matters, but there are some things that we cannot measure. However, my gut feeling is that we need to cut down on the black sector of the economy, in which people who have been thrown on the dole queues are out there with a white van working in the building trades and, regrettably, the first question that people ask is, "How do you lose the VAT?" The VAT rate is therefore critical. I do not understand why successive UK Governments have failed to address that issue. If it was done in the current climate, we could turn on a legitimate supply of construction activity that would also help householders who need to move to larger houses because they have growing families but cannot get mortgages because of the current mortgage finance situation.

We are happy to provide to the committee the detailed evidence on the issue that we have gathered and supplied to the Treasury in the past.

Bruce Crawford: Accepting that everybody would like to put more money into housing if it could be found without robbing Peter to pay Paul, is the fundamental issue not where the private sector is in the construction industry? It comes back to what we said earlier about confidence in the economy and people having a secure job and being able to get a mortgage. If there were easier access to the mortgage market, that would probably provide as much stimulus for the private sector housing position as any Government could provide.

Michael Levack: It is clearly a combination of all those things. There is not one easy answer or solution. I speak only for our members—I do not represent volume house builders—but I think that private sector companies that are trying to do their bit in their area come across blocks, whether utilities, planning permission or section 75 agreements that are still heavy duty, that constrain the building of affordable houses, even in small numbers in places where the need is becoming critical. We just do not seem to be able to address the constraints. There are all sorts of reasons and

excuses—for example, the EU and legal challenges—but we seem unable to address the constraints. Local authorities look to the Scottish Government, but we cannot seem to find the answer to the problems.

We keep hearing from banks about their lending statistics, whether mortgage finance or lending to small businesses, but we find when we speak to our members that the statistics are not borne out on the ground.

The Convener: I am keen to have further final comments from others.

Colin Borland: I have a quick final point. I accept that this is not necessarily within this committee's remit, but I think that central to the Parliament's ability is to do what we were talking about earlier, which is to ensure that moneys allocated are spent effectively to enable policies to be executed. That can be done through the proposed better regulation bill that is on the parliamentary calendar for the current term. It will be important for making doing business in Scotland easier, more effective and more certain and for removing a lot of duplication and contradictory advice. There is a clear business and financial case for the bill, although I accept that the financial memorandum will show that it probably not cost much. However, there is a clear case for keeping an eye on it to ensure that it progresses and for constantly looking at it through the prism of, "Is this going to make it easier to achieve the economic goals that we have set ourselves?"

Garry Clark: I underline Colin Borland's point, because some things have always struck me as a bit strange. For example, I was looking at some regulation issues the other week and I found that it is cheaper in South Ayrshire to license a zoo than it is to license a kennel. [*Laughter.*]

The Convener: Which of the two were you looking to license?

Garry Clark: We lead sad lives.

I have two points, neither of which is directly related to the budget but both of which have been mentioned in some form or another during the meeting. The first is the investment in the Edinburgh Glasgow improvement programme. A number of our members were disappointed and surprised to see the funding for that programme reduced substantially. It is worth highlighting that the programme's projected impact seems to have been reduced in scale fairly substantially, given the innovative funding method that was used to take the programme forward.

The second point relates to a VAT issue that is in addition to the issue of VAT on construction and repairs. We would like to focus Westminster's

eyes on the impact of VAT on tourism businesses. A huge number, if not all, of our European competitors have a preferential VAT rate for tourism-related businesses. We are putting Scottish tourism businesses at a disadvantage internationally by failing to have that kind of protection in Scotland. That is a matter for Westminster, but no doubt the Scottish Parliament will wish to take a view on it.

David Melhuish: First, I point out that it is not always necessarily about a switch of capital expenditure from one source to another. With the covenant that the Scottish Government provides, the public sector can help induce confidence in investors to come in. A bit of that has been done with the National Housing Trust, so that is perhaps a model that could be expanded to get things going quickly.

Secondly and more negatively, banking regulations for investment in real estate are about to get much stricter through a process called slotting, whereby risk-weighting categories will be increased for lenders considering commercial developments in particular. That comes at a time when we are increasing potential risk through things such as vacancy rates, so it is not a good signal to send out.

The Convener: I thank everyone for their contributions, which will certainly inform our scrutiny of the budget.

Meeting closed at 12:22.

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