



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 18 September 2013

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**ECONOMY, ENERGY AND TOURISM COMMITTEE
24th Meeting 2013, Session 4**

CONVENER

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

DEPUTY CONVENER

*Dennis Robertson (Aberdeenshire West) (SNP)

COMMITTEE MEMBERS

*Marco Biagi (Edinburgh Central) (SNP)

*Chic Brodie (South Scotland) (SNP)

*Alison Johnstone (Lothian) (Green)

*Mike MacKenzie (Highlands and Islands) (SNP)

*Hanzala Malik (Glasgow) (Lab)

*Mark McDonald (Aberdeen Donside) (SNP)

*Margaret McDougall (West Scotland) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Dr Sam Gardner (WWF Scotland)

Elizabeth Gore (Energy Action Scotland)

Jenny Hogan (Scottish Renewables)

Fraser Kelly (Social Enterprise Scotland)

David Lonsdale (CBI Scotland)

Gordon McGuinness (Skills Development Scotland)

Ruchir Shah (Scottish Council for Voluntary Organisations)

Dave Watson (Unison Scotland)

CLERK TO THE COMMITTEE

Stephen Imrie

LOCATION

Committee Room 2

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 18 September 2013

[The Convener opened the meeting at 09:32]

Draft Budget Scrutiny 2014-15

The Convener (Murdo Fraser): Good morning, ladies and gentlemen, and welcome to the 24th meeting in 2013 of the Economy, Energy and Tourism Committee. I welcome members, visitors and our witnesses, to whom I will come in a second. I remind everyone that electronic devices should be turned off or at least turned to silent to ensure that they do not interfere with the recording equipment.

The first item on the agenda is our continuing scrutiny of the draft budget 2014-15. In the first of this morning's two evidence sessions, we will take evidence from what one might call a disparate panel of witnesses: Fraser Kelly, chief executive of Social Enterprise Scotland; David Lonsdale, assistant director of CBI Scotland; Gordon McGuinness, head of industry engagement and employer offer at Skills Development Scotland; Ruchir Shah, policy manager with the Scottish Council for Voluntary Organisations; and Dave Watson, Scottish organiser for Unison Scotland. I welcome you all to the meeting.

As I am sure you will know, John Swinney published his budget last Wednesday, and I hope that you have all had time to look at it. We certainly have your written submissions. You have indicated that you do not want to make any opening statements, which, given the timescales, is very helpful.

An hour and a half has been allocated for this session but, given that the panel comprises five witnesses and that members want to ask questions on a wide range of subjects, it will help if members direct their questions at a particular panel member instead of throwing out an open question that all the panel will want to answer. If any of you wish to respond to a question that has been directed at someone else, you should catch my eye and I will try to bring you in as time allows.

I ask members and witnesses to keep questions and answers short, focused and to the point so that we can get through everything in the time permitted. Finally, I remind members and witnesses that we are scrutinising the Scottish Government's budget. We should stay focused on that and not bring in any extraneous matters.

I will help the witnesses warm up by asking a general question that I would like each of them to answer in no more than a minute, if they can. The purpose of our committee's budget scrutiny is to determine whether the Government's budget meets its objectives and priorities. Given our interest in the Government's overarching purpose of increasing sustainable economic growth and how that is tied to national performance framework targets and indicators, I must first ask whether you believe that this budget helps to meet that overarching objective. Perhaps I can start with Dave Watson.

Dave Watson (Unison Scotland): We have to be realistic about what a Scottish budget can achieve with regard to very big issues such as the state of the economy. We are possibly just about coming out of the longest and deepest recession for several generations, and recovery is, as we have made clear, nascent at best. Obviously, we and others would argue for greater powers but, under the current powers, we would like the Scottish Government budget to focus on creating employment.

We would certainly like the Scottish Government and Parliament to tackle the shift from wages to profits and incomes of the super-rich. After all, we believe that putting money in the pockets of the lower paid will drive the economy locally and will result in less leakage.

We are concerned about certain revenue cuts in the budget. Although those cuts are partly made up through capital, we would argue that there is quite a lot of leakage in capital and that putting revenue in the pockets of low-income earners would do much more for the economy.

We would also have liked to have seen quite a big effort on workforce skills. For example, the energy industry is our largest private sector industry, and you might have seen concerns this morning about skills in oil. That situation is also replicated in the power industry.

I think that that was probably a bit longer than my usual morning tweet, convener.

The Convener: Thank you, Dave. Perhaps we can just work our way along the panel.

Ruchir Shah (Scottish Council for Voluntary Organisations): It is fair to say that this is a very safe budget that largely continues existing measures and allocations. There have been some reallocations, and we have issues with certain reallocations that seem to have been taken from underspends in order to make new announcements. Overall, however, we welcome the measures to tackle welfare, and the Government has recognised the call made by many voluntary organisations that more must be

done to support our communities at this time of austerity.

It seems to be very much a patching-up budget. Some major changes that we would like to see—such as a slight refocusing of the purpose of the budget away from growing the economy and gross domestic product towards tackling inequalities—are not as evident as we would like. That said, there are some good signs, and the equality statement contains a good recognition of some of the grass-roots programmes that are working quite well in our communities. Community jobs Scotland, for example, brings together many voluntary organisations to support job outcomes.

As I have said, much of the budget is a continuation of existing measures but, then, we would not expect anything different in this pre-referendum year. However, we would like to see signs of a shift in the way money is spent within the big budget items. I am talking not so much about the amount allocated at the big block level to the national health service, local authorities and so on but about how those allocations are spent. That is a critical issue.

I think that the real action is going to take place in a number of bills that are coming to or currently going through Parliament, such as the procurement bill, the community empowerment and renewal bill, and the Public Bodies (Joint Working) (Scotland) Bill, which is all about the integration of health and social care. Those pieces of legislation will help to shape some of the spending and put some flesh on the budget's bones.

It is very difficult to look at this kind of large budget and talk about putting several billion more into this or that area, especially when it is so difficult to shift those budgets around and when there is so little room for manoeuvre. Given that, as a result, only a few million pounds here or there tends to be available for shifting around, it is very difficult to see how we can radically change outcomes and make the shift towards tackling inequalities that we would like to see.

Gordon McGuinness (Skills Development Scotland): We are pretty content with the indicative budget settlement, which I think is an endorsement of our direction of travel.

Collectively across the public sector, we have made inroads on key priorities to do with youth employment. That is to be welcomed. The draft budget offers us the opportunity to continue to transform our services in the light of public sector reform. I think that it is an endorsement of the work that we have done in what is a key part of my role—the development of strategies to support industrial growth in the Government's key sectors and the other sectors that are regional priorities.

That is where we are seeing increased investment in our activities and are getting good feedback and reports. Maybe we can touch on some of the stuff that Dave Watson mentioned in relation to our work on energy.

I think that, overall, the draft budget is an endorsement of the work that we have done. It will allow us to continue in the same direction of travel and to have an increased focus on modern apprenticeships. We are looking forward to working with the Wood commission on its next phase. It has undertaken a post-16 and vocational review, and we are working on some of the recommendations that it made in the interim report that was published last week. Overall, we are happy with the direction of travel in the budget.

David Lonsdale (CBI Scotland): Thank you for inviting us, convener, and thank you for setting the challenge of answering in one minute.

As it is the third year of a three-year spending review, it is reasonable to conclude that all the main spending decisions were taken at the outset. That is right and proper. We whole-heartedly endorse the Scottish Government's objective and the premise of your question—that growth should be the priority of the budget. Being realistic, in light of the uplift in NHS spending as a result of the protection that it has been given, it is reasonable to conclude that that is the spending priority over the three years of the spending review.

That said, a number of useful measures on, for example, housing and infrastructure were announced in the budget, although we think that there were some missed opportunities to do with air connectivity and business rates. As we said in our submission to the Cabinet Secretary for Finance, Employment and Sustainable Growth, which we sent to the committee in advance of our appearance today, we think that a bolder approach could have been taken to make savings, which could have been reinvested in areas such as infrastructure, export support and skills development.

Fraser Kelly (Social Enterprise Scotland): A lot has been said about the continuing pressure on public service budgets. Although we are seeing the green shoots of recovery in the wider economy, I suspect that there will continue to be pressure on public expenditure for a number of years to come. I think that the budget does what it says on the tin as far as the 2011 to 2014 programme is concerned.

Our view is that we should not view the budget simply as a redistribution of money but should look at the additional levers that sit alongside the budget responsibilities, which relate to the design of services. Ruchir Shah mentioned a number of things. We are looking more at what will happen

on co-production, co-commissioning and the development of public-social partnerships, because we genuinely believe that social enterprise, in the context in which it sits, delivers on the economic imperative and the social imperative. When we look at a budget settlement, we should not look at it simply as a redistribution of moneys in order to achieve one thing as opposed to another.

The Convener: I thank all the witnesses. A range of issues have been touched on that I am sure will come up in questioning.

Dennis Robertson (Aberdeenshire West) (SNP): Good morning, gentlemen, and thank you for your written submissions.

One thing that stood out for me was the fact that the CBI would like to see the removal of ring fencing for the NHS. How do you think that that would impact on the budget? Where would you take the money from? How would you redistribute it, and to where?

David Lonsdale: We are conscious that that is a political decision and that there are not many people who are arguing that the ring fencing of health expenditure should come to an end. We have set out a reasonable position that says that the NHS gets a third of total spend and has had a very good run in recent years, particularly relative to other areas of expenditure, and that ring fencing health expenditure puts other areas of expenditure in a more difficult position than they would otherwise be in.

09:45

We have said therefore that—perhaps not this year but at some point—there has to be some signal that that will come to an end; otherwise, health will soak up an ever larger part of the budget and it will be even more difficult for the Scottish Government to meet its growth objective, which is what we are told the priority is and what, in the view of our members, it should be.

The question is: can the ring fencing go on for ever? In his budget speech, Mr Swinney gave an indication that he expected it to continue at a United Kingdom level for the next two or three years. We understand the difficulties, the challenges and the political imperative, but if we are serious about ensuring that the budget is supporting the economy on growth, that is one area that we think needs to be tackled.

At the end of the day, we made a number of suggestions of changes that could be made to spending so that we can support the economy. The elephant in the room is that a third of the budget is protected for the NHS.

Dennis Robertson: Would you accept that, by ring fencing the NHS budget, we are to an extent securing the health of the nation? There will be a growing need for health services, as we have a growing population, and many people are going in with multiple health issues. It is therefore perhaps right and proper to ensure that the health service is there to meet the needs of the population.

David Lonsdale: Clearly, it is a thorny issue that politicians and the Government have to grapple with. We are not talking about reining back the amount of money that is spent on the health service—we are saying that it should be a huge and substantial part of the budget. What we are doing is asking whether it makes sense to ring fence it when the belief is that the budget and the Government's wider agenda should be directed towards supporting the economy.

In our submission and in our submissions to the Christie commission and the independent budget review, we have suggested many ways in which we could get more out of health expenditure by capitalising on the expertise and the economies of scale that the private sector can bring to health budgets.

Ruchir Shah: We have also spoken out against the ring fencing of the NHS budget. The reason for that view is that we think that it is possible to prioritise health outcomes, which is not the same thing as ring fencing the NHS budget. In fact, if you want to achieve certain health outcomes, there are many other important routes that you need to go down.

You gave the example of our ageing population. Investment in community transport can make a huge difference to health outcomes for older people. The social care budgets are also important in that respect, as is investment in community infrastructure. A lot of important measures take place outside the NHS and, by ring fencing the NHS budget, it is possible that health outcomes in certain circumstances might be militated against because everything is focused on the clinical aspects rather than some of the social aspects of health outcomes. We would therefore support the view that looks towards ending the ring fencing of the health budget.

Dennis Robertson: Do you accept that the integration of the health and social care budgets gives protection for the kinds of things that you are mentioning and that there is, therefore, more of an assurance that we will be able to meet the particular needs that you refer to? Some of what you have mentioned involves preventative spend, anyway. I suggest that the integration of health and social care gives much more security in terms of the health of the nation.

Ruchir Shah: As the chief executive of the SCVO said yesterday at the Health and Sport Committee, the focus on budget protectionism that comes from focusing too much on how public bodies might work together can sometimes not quite speak to the experience of the people who are using the services. We have seen during the debates on the Public Bodies (Joint Working) (Scotland) Bill that the focus of the people who are using the system—and can get lost in the system—has been given less of an emphasis than the idea of the public bodies working together. Part of the problem is that we can end up with some protectionism of budgets when we focus too much on protecting budgets with a view to integrating health and social care.

The Convener: Before we move on, I want to pick up on business rates, which David Lonsdale referred to in his opening remarks. The Scottish Government's draft budget shows a projected increase of more than £400 million in business rates revenue over the next two years. In your view, is that a realistic projection? Is it fair? Is it welcome? Do you have any concerns about it?

David Lonsdale: From our perspective, we think that it is somewhat optimistic and we have outlined a few reasons why we think so.

Obviously, the economy is still muted; there are some encouraging signs of growth, but it is still quite muted. Forecasts for the next couple of years are encouraging, but they are not stellar. We have seen some increases in business rates in the past year on firms with empty commercial premises. There is also the levy on larger retailers, which make up just over a quarter of all rates income. Is it possible to tap that well again? We think that one of the positives from the budget is the extension into 2015-16 of the rates discount for enterprise zones.

Against that background, it seems somewhat challenging to project such an increase in business rates. There may be good reasons for the projection. If there is an optimistic assumption on growth, that sounds very positive and we hope that it comes to pass.

The Convener: Thank you for that. Margaret McDougall wants to ask about fuel poverty.

Margaret McDougall (West Scotland) (Lab): What are the panel's views on the effect that the budget will have on fuel poverty, given that 40 per cent of people who are in poverty are in work?

The Convener: Margaret has broken the first rule of the Fraser convenership, which is that we do not direct open questions to all members of the panel.

Margaret McDougall: I am sorry. I direct my question to Unison, in the first instance.

Dave Watson: The committee will hear from Energy Action Scotland in the next witness session; I am sure that Elizabeth Gore will give you more detail on fuel poverty. Our view is that energy costs are clearly one of the biggest burdens on low-paid people. There has been a big increase in fuel poverty, and fuel costs take up a very large proportion of the income of those at the lower income levels of our society, so it is an important issue.

As you probably understand, there are three elements to fuel poverty, one of which relates to benefits—obviously, that is a reserved issue—which are coming under enormous pressure. The second element is where the Scottish Government does have levers, which is money that is focused on energy efficiency. There are some positive elements of the budget in that area that we welcome, but we think that much more could be done not only to tackle fuel poverty, but with the economic spin-off that that type of work has for skills and the economy more broadly.

The last element, which has been the biggie in recent years of course, is the increase in energy prices, in particular from the big six suppliers. I have to say that we are singularly unimpressed by the work of the Office of Gas and Electricity Markets and the initiatives to do something about the increase in prices. Ofgem has been very weak over many years and has not delivered. In our view, there needs to be a much more fundamental look at how the energy retail industry in particular is structured and how we tackle price. Frankly, the market has not delivered energy at the price at which it could have delivered it. We need that type of comprehensive response.

Margaret McDougall: Thank you. I will perhaps stray from fuel poverty to just poverty. As I said, 40 per cent of people in poverty are in work. Perhaps Ruchir Shah can give me his view on what has been done on that and how the budget could help people who are in poverty and in work. Obviously, zero-hours contracts are causing a lot of concern to the public. Can you also comment on those, please?

Ruchir Shah: We have major issues with zero-hours contracts. Even in the voluntary sector, some organisations have zero-hours contracts, which is a real shame, but it is because of the procurement system within which many organisations in our sector have to operate. They have to become the cheapest bidder in order to win contracts so that they can deliver the outcomes for the people whom they support, who are some of the most vulnerable people. That means that some organisations make compromises, while others draw a red line and say that they will pay a living wage to their employees.

We therefore have a mixed bag in our sector, which is a real problem.

The fuel poverty point is relevant. You heard from Energy Action Scotland concerns that it has raised publicly with us about the shifts in the budget away from fuel poverty budgets in order to feed into new announcements. For example, £20 million has been announced to mitigate the bedroom tax in the first year. The question is whether we are taking money away from addressing fuel poverty to put it into mitigating the bedroom tax. If so, many of the lowest earners in society will find themselves in a zero-sum game.

There are issues all round. Many third sector organisations are initiating campaigns to push poverty further up the agenda, particularly in response to the changes in the welfare system that have been hammering a lot of the most vulnerable people whom our sector serves. That must become the key issue in a range of arenas, including the debates on Scotland's future.

Margaret McDougall: You mentioned procurement. I would like to hear Gordon McGuinness's views on the forthcoming procurement bill. Should it include provisions to give more opportunity to local companies?

The Convener: Margaret, you must bear it in mind that this is an evidence session on the Scottish Government's budget. I would prefer the committee's questions to be focused on it and what changes to the budget might be required.

Margaret McDougall: Yes, well, the economy will be directly affected by the proposed procurement bill.

Gordon McGuinness is the head of industry engagement and employer offer. What could the budget have included to improve the opportunities for employers to offer better contracts to employees instead of zero-hours contracts?

Gordon McGuinness: As far as I am aware, employability legislation is a reserved matter. The work that we do with local employability partnerships—primarily with local authorities, although many third sector organisations are involved—seeks to place conditions on contractual arrangements, particularly when wage subsidy programmes are involved. Our modern apprenticeships programme has employed status, so zero-hours contracts are not used for it. Where we are provided a solid base on which to build.

We have seen an impact through our employability fund and the work that we do with partners. As people move from unemployment or being economically inactive to employment, we anticipate further challenges in terms of their ability to comply with the conditionality around universal credits, which is the main benefits

system. That will have an impact on people who have disabilities, but even people who undertake a part-time job for 16 hours a week will be under fairly heavy conditionality in terms of their seeking further work or permanent work. That will play out as the universal credits system is introduced in full. We are looking at that issue and working with partners to address it, as it will have an impact on individuals as they make the transition from inactivity to employment.

The Convener: Fraser Kelly wants to come in. If you can keep your remarks focused on the budget, that will be helpful.

Fraser Kelly: Indeed—although the proposed procurement reform bill is relevant to the budget. In our submission to Mr Swinney during the budget consultation, we spoke about the opportunity to include in the procurement process a requirement to pay a living wage. However, I do not think that he feels that there is any legitimacy in that, in terms of the competence test.

It comes back to my original comment that we must look not simply at where we distribute the money, but at what other instruments are available in terms of co-production, the design of services and how they can achieve the best economic and social outcomes. There is a relevance in that territory to be discussed.

Marco Biagi (Edinburgh Central) (SNP): The call for evidence included a line stating that we would be grateful if written submissions could highlight from what area additional resources should be diverted. In Unison's written submission, there is a reference to the importance of boosting funding for fuel poverty measures and the suggestion that

"Funding could come from spending on expensive PPP/PFI schemes".

We will spend £3 billion over the next three years on PFI, which is eye-watering. Will you expand on that and say whether there are routes to securing additional funding for tackling fuel poverty or anything else?

10:00

Dave Watson: Yes. We have been a long-standing opponent of money being wasted on PFI schemes—it will hardly come as a shock that I say that—but I noticed that, in the budget, the Scottish Government likes to ring fence all PFI projects, but not to put its new PFI projects in the same annex. I am sure that that is entirely coincidental.

It is clear that, although we have learned lessons, we are still wasting an awful lot of money. I note David Lonsdale's attempt to return us to the 1970s by privatising the NHS as well. Needless to say, we think that is incredible. I was around when

that was happening in the NHS, and there was an unholy mess that we have only just got out of. A return to that would be a disaster.

On spending money, things are difficult if we sign up to long-term contracts. The fundamental problem with PFI in all its various forms is that if you sign up to PFI, you sign up to long-term budgets. However, it has been possible to renegotiate elements of those contracts. Changes are always required, and imaginative renegotiations have to be used to try to drive down and reduce costs. I wrote a paper entitled "At What Cost?", which highlights the additional costs of such schemes. Better value can be got out of them.

We have also highlighted other areas of spending. Tomorrow, we will publish work that we have done on spending on consultants. I will send a copy of that to the clerk. Even in the current climate, local authorities and others spend millions of pounds on external consultants. We question the value of that and give examples of such spending.

Things are not entirely fixed, and a little bit can be done. Anything that would free up money and put real money into tackling fuel poverty and, particularly, into energy efficiency would be welcome. It would be money well spent.

Marco Biagi: Without pre-empting your paper, in what fields do those consultants generally work?

Dave Watson: That varies. Some consultancy is perfectly legitimate. For example, Glasgow City Council has consultants to advise on the design of the velodrome. In fairness, our members in architects departments do not build velodromes every day, so expertise is clearly gained, but there is a whole range of other areas in which the big generic consultancies are getting millions of pounds of public sector money. We have targeted 10 of the biggest ones and asked where the money is going. The Improvement Service, for example, has focused more on using the expertise that already exists in the public sector. Most of us who have dealt with such generic consultants would say that they come in, pick your brains and produce a report on the back of that, or say, "Here's one we produced earlier. We've just changed the title at the top of it." That happens: I have seen it many times and it is money down the drain. We need a rigorous look at why we are spending money in those very expensive areas.

Chic Brodie (South Scotland) (SNP): What PFI projects is the Government introducing?

Dave Watson: The non-profit-distributing programme is—

Chic Brodie: That is not a PFI—

Dave Watson: I am sorry, but it is a PFI scheme. It comes under the PPP framework, as do the partnership arrangements that have been developed in the other schemes. They are a direct lift from the English PFI local improvement finance trust programme. They are virtually unchanged from it. I agree that they are better PFI schemes, but they are still PFI schemes.

Chic Brodie: The schemes are not for profit, unlike PFI.

The Convener: Okay. We are not going to resolve that debate this morning. Does Mark McDonald want to come in on fuel poverty?

Mark McDonald (Aberdeen Donside) (SNP): I wanted to come in after the debate had slightly expanded beyond fuel poverty. It depends on whether you are feeling generous, convener.

The Convener: I am not sure whether Hanzala Malik wants to come in on fuel poverty.

Hanzala Malik (Glasgow) (Lab): No. I have another question to be answered.

The Convener: Okay. If nobody else has questions on fuel poverty, I am happy for Mark McDonald to ask a question.

Mark McDonald: The debate has widened slightly. I want to look at the wider inequality agenda, which Ruchir Shah brought in. To link back to Dennis Robertson's comments, one of the reasons why health spending is important is in dealing with some of the inequalities that are created, but as Professor Harry Burns has noted, the root cause of health inequality is income inequality. With that in mind—I direct the question to Ruchir Shah initially—does the SCVO welcome the Scottish Government's emphasis on the living wage? Could more be done outside the public sector in that regard?

Ruchir Shah: Absolutely. We fully welcome the living wage and want it to be the standard by which all sectors pay their staff. There are some niggling issues that need to be ironed out, particularly in the case of how procurement is managed by local authorities. Many of our voluntary organisations are subsidising contracts. How do they do that? They have to cut costs and cut corners. We need to resolve that. However, the principle of the living wage is fully accepted by a wide range of our members, and we fully support it.

Mark McDonald: I direct the same question to David Lonsdale in order to hear from the private sector angle. What are CBI Scotland and its members bringing to the table in relation to addressing income inequality and in-work poverty?

David Lonsdale: Thank you for that.

We wholly support individual employers doing the best that they can, and if they can afford to implement a living wage, as the Scottish Government has done, so be it, but we suggest that it ought to be a matter for individual employers. We have supported the national minimum wage. If politicians want to increase the rate or scrap it and move to a living wage, they should be up front about that, tell us that that is what they want to do and introduce the necessary legislation.

The vast majority of companies recognise the importance of attracting and retaining good people, and the vast majority pay people a good rate. We all complain from time to time about the amount that we get and there are people who are earning less but, as I say, the vast majority of employers want to do the right thing by their staff and they appreciate that that is important for their reputation and for attracting staff.

Mark McDonald: I appreciate the point that you make. The minimum wage is a reserved matter, but the Scottish Government is doing what it can within the powers that exist under devolution. Is it your view that we will continue to see people relying on in-work benefits in order to sustain living standards, rather than having a wider living wage implemented? Will it continue to be the case that, unless there is legislation, private sector employers will not examine the wages that they pay their staff to see whether they represent a living wage, as it were?

David Lonsdale: I will route this back to the budget, if I may. One of the strengths of the budget has been the council tax freeze, which has helped a number of people since—as we touched on earlier—the cost of living has spiked in recent years for a variety of reasons to do with commodity prices, inflation and so on. We have supported the freeze, although perhaps for another reason to do with the alternatives and employers having to pick up administrative costs.

Our member companies tend to be good employers and they want to participate in such things. As I said, if politicians want to change the law and increase the national minimum wage, they should be up front about doing that. Employers will respond accordingly and pay the wages that they have to pay. As I said, the vast majority pay good wages because they want to attract and retain good people, who are at a premium at the moment. Gordon McGuinness from Skills Development Scotland has a budget of some £200 million to try to make progress in the area, and we have been supportive of that.

Mark McDonald: Just out of curiosity, what would CBI Scotland's position be if a Government—either at Westminster or in Scotland, if the powers existed here—were to

suggest changing the national minimum wage to a higher rate?

David Lonsdale: We have been supportive of the increases in the national minimum wage in recent years. We support the work of the Low Pay Commission, which does a good job in balancing demands for higher wage rates with the broader needs of the economy. I am conscious that there are four different rates for the national minimum wage. I am not sure whether those would continue the other side of independence, but we have been supportive of them.

Mark McDonald: I want to direct a question to Ruchir Shah. I am interested in the point about the money that has been set aside for bedroom tax mitigation. In the cabinet secretary's statement last week, he made it clear that the money comes from underspends that have been created because of delays in energy efficiency schemes, as well as underspends in his portfolio. Leaving aside whether I agree entirely with the accuracy of your point about shifting money from budget X to budget Y, in essence, the situation highlights the weakness of the devolution settlement, in that we have a fixed budget and therefore, when mitigation measures are required, money simply has to be shifted from one budget to another. With that in mind, do you believe that the money should come from a different source, or do you agree with the position that I have highlighted that the weakness of the settlement is that the cabinet secretary only ever has a fixed amount of money to play with?

Ruchir Shah: I think that there is a question in there. Last year, a number of leading organisations in the third sector, including the SCVO, came together to look at the Scottish Government's block grant settlement and consider what we would do if we were to make the decisions about how to spend the money and carve it up. Quite often, organisations say, "Give us a bit more money," but we wanted to consider how we would spend the money if we had to look at the whole budget.

We quickly realised that, for political, economic and many other reasons, there is very little room for manoeuvre in the budget that is available to the Government. That is why, day in, day out, we get small announcements of a few million pounds here and a few million there. That just will not make any difference. Therefore, we perhaps need to focus a little less on the full blocks—whether for the NHS, local authorities and so on—and look at how we spend the money within those blocks. To echo Fraser Kelly's point, that is why it is crucial that we use other levers such as the procurement bill that will come before the Parliament, which is an excellent example. We could include in that bill stipulations relating to social, environmental and local community impacts when the Government

uses its £9 billion procurement budget to seek change. That kind of discussion will have a huge impact on how the budget achieves the outcomes.

We can go only so far in talking about allocations here and there. Of course we need to focus on whether some money is taken away from fuel poverty budgets to fund bedroom tax and other budgets, and I am sure that the committee will hear more about that later from Energy Action Scotland. However, the key principle is that we perhaps need to expand our view a bit. I realise that there is a limitation in the current discussion that we are having in this round-table session, but that is my response.

Mark McDonald: Often, when budgets are allocated to organisations, the decisions on how those budgets are used are for those organisations to make. That applies particularly to local government, where a huge amount of the previous ring fencing has been removed. I am not sure whether you are arguing that we should go back to the days of heavily ring-fenced budgets and councils or other organisations being told, “This is the money and you absolutely must spend £X on this.” Do you see the outcomes agenda, rather than the ring fencing agenda that was used previously, as the way to focus spending?

Ruchir Shah: Actually, the current Administration is considering ways in which stipulations can be added to various contracts through procurement practices. That has happened with NPD projects, and we are seeing it with the various social impact clauses. I am sure that Fraser Kelly will be able to add to that. I do not agree that that approach is about going back to ring fencing budgets and having detailed lists of hundreds of targets for how the money should be spent that must be met or the money will not be given. We are talking about basic stipulations to do with things such as the living wage and job outcomes—it is about social responsibility among those who bid for contracts. A lot more can be done on that.

The Convener: I bring in Alison Johnstone on inequality.

10:15

Alison Johnstone (Lothian) (Green): The SCVO’s written submission states that you are concerned that the national performance framework has no indicators that measure changes in economic and societal inequalities across regions and individuals and that, although we might increase growth, that is not to say that that will address inequality in any way, because some people might be experiencing boom while others might be in dire straits. Unison also raised concerns about the focus on sustainable economic

growth. A few months ago, the committee heard from Joseph Stiglitz, the renowned Nobel prize-winning economist. He suggested that we might more usefully measure median household income in order to get an idea of how the average family is doing. Would such a measure enable us to better direct the budget in order to produce more positive outcomes for more people?

Ruchir Shah: I have a huge deal of respect for Professor Stiglitz and his suggestions. If we shift to measuring median income, that may take us at least so far, but we need to think more broadly about how we co-produce some of the measures with society more widely. In our budget submission to the committee, we suggested that the national performance framework should take a slightly different approach. We should perhaps look at how Government can take a lead role in setting national outcomes with society, rather than setting the outcomes and then asking society to vote on whether or not it should be in power, or simply stating what the national outcomes are.

If the Government brings society with it and gets everyone to give their shared vision of what the national outcomes are, we can construct indicators that meet everyone’s needs, and build a shared consensus for the type of society that we want. In that context, Professor Stiglitz’s proposal to measure median income could be one indicator, but that would not be enough in itself to address the type of principles that he wants to see.

Dave Watson: In our evidence, we pointed to the Oxfam humankind index and the Carnegie Trust’s very good work in that area, and I agree with Ruchir Shah that the national performance framework must be a broader document.

I agree with Professor Stiglitz that median household income is one useful addition. There is currently too much focus on GDP, which covers an awful lot of expenditure and income in Scotland but does not necessarily reflect how real people on the ground are doing. We have such an unequal society—the richest in Scotland are 273 times more wealthy than the poorest—that GDP loses a lot in the averaging. On that basis, I think that the national performance framework could use some of the wider definitions, and I certainly recommend the Carnegie Trust’s work and its evidence in that area.

Alison Johnstone: Unison Scotland and Stop Climate Chaos Scotland have called for the active travel budget to be doubled to £40 million. We know that local infrastructure projects can deliver many more local jobs. How might we use the budget to make that possible? Ruchir Shah spoke about prioritising health outcomes, and we can take budget decisions to do that. Only 2 per cent of our transport budget is used to encourage walking and cycling, and David Lonsdale

suggested that we might look at the health budget. We have a real opportunity to improve the nation's health, and we will perhaps save some spending on the health budget if we have a more healthy active population. How might we ensure that such health outcomes are prioritised and have an impact on the budget?

Dave Watson: I was an expert adviser to the Christie commission, so I point you to some of its recommendations in that area., which are not as broadly followed. The key thing for us was that, in making the big difficult decisions, there is far too much silo planning. That is true not only for organisations, which is the bit that everyone picks up from the Christie commission report, but for budgets.

Health inequalities are a good example. As Harry Burns has pointed out, they are probably Scotland's greatest problem, but they are not just a matter for the health budget. Inequality in health requires us to focus on housing, fuel poverty, environmental sustainability, transport budgets and everything else. If we can start to look at some of those big issues in a much more cross-cutting way across the budgets, we might get some added value. Then, if we put the focus on understanding that the biggest issues in health are probably to do with areas other than the NHS, we can have the type of discussion about the health budget to which David Lonsdale and others have referred.

The transport budget has been the most difficult one for successive Governments to address with regard to areas such as climate change. There is always a demand for new roads and everything else, but we really need to start to make some of the shifts to recognise that climate change is not just about the energy industry or energy efficiency, but about the transport budget. If we do not begin to make some shifts in that area, we have little chance of meeting our very ambitious climate change targets.

Alison Johnstone: Would Mr Shah like to comment on that?

Ruchir Shah: I do not know how much time we have, but I agree with Dave Watson. Do you want me to expand on that?

The Convener: Do not feel that you have to.

Ruchir Shah: I will not unless you want me to, because I am conscious that I have been speaking for a while.

Alison Johnstone: I am very aware that a lot of Scots do not have access to a private vehicle, yet most of our transport spend goes into high-carbon infrastructure projects that are designed largely for those who have cars. A massive percentage of Scots do not have a car, but a great deal of people

would like to enjoy safe walking and cycling. That is a transport justice issue, and community transport is one issue that we need to tackle quickly.

Ruchir Shah: There is some evidence to back that up. Oxfam's humankind index project has been very successful in reaching some of the communities that other research rarely reaches, and it has found that top among people's concerns are being able to enjoy the environment around them and having a safe community in which they can get to work and back. If we add to that the health outcomes that can be gained from sustainable transport, I completely agree that it must be one of the priorities. It is another way in which we can achieve health outcomes in a way that does not have to mean building and maintaining new hospitals.

Alison Johnstone: Does David Lonsdale want come in?

David Lonsdale: I declare an interest as an enthusiastic cyclist—and an exemplar of the benefits, because I have lost a lot of weight over the past two or three years from taking up cycling in a major way and doing a few events in the convener's constituency.

To go back to the reason why I am here, a bolder approach to making savings in the budget would free up moneys for opportunities like that. That might be a personal view as opposed to one that CBI Scotland would necessarily advance.

The Convener: Marco Biagi wanted to come in on active travel.

Marco Biagi: Yes. Any time that there is a call for a major spending commitment, the issue is where the money comes from. Mr Shah, you seem to be suggesting that we should find the money from the health budget. Am I reading you right there, or is it just that there is no obvious place from which to take the money for an additional top-up to the active travel budget?

Ruchir Shah: As I said, when we carried out our budget exercise, the main priority was how we spend the existing money. You can create active travel initiatives through the health budget, or try to de-ring fence the health budget and bring in resources in other ways. There are clearly political considerations either way that the Government would need to take into account, and we understand that, but we want to get to the outcomes. More critically, if we want to get to those outcomes, we have to bring people with us and get the views of others.

On Fraser Kelly's point about co-producing the budget, that is quite critical, and we have been calling for some time for the budget to be a co-produced effort. There is no reason why the

Government just has to sit in the back room and decide how it will construct the budget; it can be co-produced and more consensual.

Marco Biagi: I am not sure that that answers my question, but I will move on.

Mr Watson, the Unison Scotland submission suggested that the funding could come from other areas of the transport budget. Which other areas?

Dave Watson: One area that we would look at is roads. We need to make a decision at some stage to consider a shift from roads to more active travel if we are serious about tackling climate change. That is not politically easy—and I would not have your job and have to make such decisions—but if we are serious about making a shift from one type of transport to another, that needs to be looked at.

My big point is that, if we do not view everything in silos, we can start to open up discussions. I would not say that we should go around picking from this or that, but we should look at achieving overall objectives, such as addressing health inequalities and climate change. That means looking at the budget in a different way that is not limited to the current silos. However, within the current budget arrangements, we would look to make a modest shift in active travel—it would be modest, because the amount for active travel is small.

Marco Biagi: So you are suggesting that money should come from the budget lines under motorways and trunk roads—I admit that they are slightly opaque in the budget document—that are aligned to new road building.

Thank you.

The Convener: I should say for the *Official Report* that Mr Watson nodded at that point. *[Laughter.]*

Dennis Robertson: My question is to Mr Watson. Do you accept that there is a huge difference between urban and rural areas on active travel? People in remote and rural communities rely more on cars or other transport to get to their workplaces, whereas the position is slightly different in urban areas. One size does not fit all.

Dave Watson: I accept that entirely. We must have a properly integrated transport strategy that meets the disparate needs of Scotland's geography.

Dennis Robertson: Do you accept that the budget that the cabinet secretary has produced attempts to look at integrated transport? Although the money for active travel is limited, do you accept that the proportions are about right, given the urban and rural diversity?

Dave Watson: Difficult balances are involved. We argue that a shift is needed and that we need to put more effort into public transport and active transport if we are to meet our climate change targets. However, I entirely accept that, realistically, more might be able to be done in urban areas than in rural areas in spending the money on public transport and active travel. That point is perfectly reasonable.

Chic Brodie: My question is to Mr Lonsdale and Mr Watson. Given that Mr Shah said that there is "little room to manoeuvre", and we know what that means—the block grant—is the budget's balance between consumption and investment correct?

David Lonsdale: No—our submission makes that point.

Chic Brodie: Will you expand on what area you think is delinquent?

David Lonsdale: We have traditionally called for greater spend on investment in infrastructure. We keep coming back to thorny issues for politicians to grapple with. In the good times, we spent a lot on various free services, from which we all benefit. When less money is around, it is tricky to do what we want to do. If the growth objective is the top priority, the budget should reflect that and we should address such issues.

In our submission to Mr Swinney a few months ago, which we provided to the committee, we set out a number of areas in which savings could be made in the budget. One proposal is a graduate contribution, for example. A shift needs to be made from consumption to investment, as you describe it.

Dave Watson: I do not agree, because there is a shift. The revenue budgets over the coming years show two tight years and one very bad year, with revenue cuts.

As I have said, one problem with capital expenditure—although it is worthy and it is right to put money into it—is that there are great leakages of that money out of the Scottish economy. Some big capital projects bring in a workforce from outside Scotland and some profits go to companies outwith Scotland and the UK—the biggest example concerns Chinese steel for the new Forth road bridge, but there are many others. That is what happens with capital money.

If revenue spending is properly targeted to those who are at the lower end of the income scale, they spend it in their localities—in local shops. Revenue expenditure is still very important. While the economy is recovering, that lack of revenue spending and lack of confidence in the high street will drag the recession out for longer.

10:30

Chic Brodie: What do you think the multiplier effect is of capital spending versus revenue spending?

Dave Watson: The classic multiplier is 2.5 to 2.7, but that does not take account of leakage. Revenue spending is very important and we need to get it in at the local level.

Chic Brodie: In the UK and, as best as we can discern, in Scotland, there is leakage from consumption expenditure. The balance of payments shows that the consumption of imported products is probably higher than it should be.

Dave Watson: Yes, in the broader economy, but I am talking about the Government's spending budget. If we focus the Government's revenue spend on the income levels of the lowest paid, the living wage, and dealing with zero-hours contracts, that will have a real benefit because people spend locally, which helps the private sector and drives the economy.

Chic Brodie: In that case, why do you want to increase council tax? You said that it is economically damaging in the current era of austerity. Mr Lonsdale, you think that it was right to freeze the council tax and that the freeze should continue at least for the foreseeable future.

David Lonsdale: On your earlier point, our figure for the economic benefit from investment in infrastructure and construction is slightly higher. It is more towards £3 for every £1 that is spent on it. Obviously that has a knock-on benefit for the wider manufacturing and supply chain.

Yes, CBI Scotland has been a vocal supporter of the Scottish Government's council tax freeze in recent years. The fundamental reason for that support was the earlier suggestion that a local income tax would be brought in. At the time, it was suggested that employers would administer it as opposed to individuals, which would have meant a cost for employers. We did not support that. Council tax was rising exponentially and it has now been frozen at a much more reasonable sum. If the Scottish Government decides that it wants to allow the council tax to rise in line with inflation in subsequent budgets, it would be much less of an issue nowadays thanks to the freeze that we have enjoyed for the past few years.

Dave Watson: Shock horror! Unison and CBI Scotland agree on the local income tax, but I will probably stop at that before my career goes down the pan.

On the council tax, our argument is that no one likes paying tax. Everyone likes the tax freeze, and clearly our members like it as much as anyone else does. The issue for us is about how the money is spent. We feel that the council tax freeze

is largely regressive. It puts more money into the pockets of those who live in the biggest houses and should pay the most council tax. They get the most out of the freeze in cash terms. A regressive tax cut is not a good use of public money in the current economic climate.

The Convener: Before Chic Brodie carries on, Marco Biagi wants to come in with a supplementary question on capital investment.

Marco Biagi: Yes. It is on leakage in particular. Does either CBI Scotland or Unison have any figures on leakage for revenue expenditure? It is very easy to paint a picture of people shopping in local shops but if they go to a supermarket and buy imported goods, that means just as much leakage in capital investment, if not more.

Dave Watson: I have seen various academic works that have very broad estimates. It is very difficult to pin down such a figure. The work that I have seen would certainly argue that the low paid tend to spend more in their local shops and community, which helps to drive the confidence that has been missing in the current economic downturn. As far as I am aware, and I am open to being corrected, I have not seen any precise figures on either capital or revenue expenditure.

Marco Biagi: So you do not have sources that you can cite.

Dave Watson: No. I would accept that that is our view. There are academic papers on the subject, but they will not give you the hard numbers that you are looking for. They are judgments and assumptions that have been made through academic work in the area.

David Lonsdale: I am not aware of any detail that we might have on that, but what I would say is that expenditure on infrastructure construction builds the nation's long-term economic capacity and can, in turn, reduce the amount spent on maintenance bills, improve congestion and so on. There are longer-term benefits as well as short-term, here-and-now benefits.

The Convener: Alison Johnstone has a question about leakage.

Alison Johnstone: It is really the capital investment question. The Government has chosen to fight its way out of the current austerity by investing in construction projects, but the fact is that employment in such projects is massively gender segregated. In his submission, Gordon McGuinness says that the gap between young women and men in the uptake of modern apprenticeships is closing, which is very much to be welcomed. However, despite the fact that the number of young women taking up apprenticeships is increasing, there is still massive gender segregation in the most popular modern

apprenticeships, with many young men still going into construction and many young women still going into childcare, hairdressing or beauty. We are more likely to see a young woman cutting the hair of the young chap who is involved in the construction project, and that will obviously affect their wages, pension prospects and so on. We have heard about close the gap and various other initiatives that let young women realise the opportunities that exist, but is there anything that the budget could do to address a situation that is not improving at a rate that any of us can be happy with?

Gordon McGuinness: The picture is improving and is better than it has been. Gender segregation is a deep-rooted issue that probably begins in schools as young people move through their education. Given that young people's subject and career choices often influence their future direction of travel, we are putting a lot of emphasis on the work of our careers service and on working with careers guidance teachers in schools. In our my world of work web environment, we are trying to do much more to open things up and highlight opportunities for females, in particular, to go into traditionally male-oriented occupations.

We and our partners will continue to work at this issue. For example, we have done a fair amount of work with our training organisations, particularly Construction Skills Scotland and the Construction Industry Training Board in respect of construction, and we genuinely need to keep working at this by providing good-quality role models. Perhaps we should look again at some of our previous access programmes in order to create environments that promote self-confidence and access routes into industry.

I should also point out that, in our modern apprenticeship programmes, each young person is employed by the employer; in other words, it is the employer who makes the decision. Our role is not only to influence employers but to raise the career aspirations of young people, particularly females.

The Convener: Before I come back to Chic Brodie, I have one more question about leakage that Dave Watson might be able to help me with. Are you aware of suggestions being made locally in Dunfermline that as many as 400 Spanish workers have been brought in to work on the new Forth bridge and are living in temporary accommodation?

Dave Watson: I am not aware of that example, but I know that in some of our industries—Unison does not represent people in the construction industry—there have been cases of workers being brought in on that basis. That is why I think that workforce development and skills are crucial in developing those areas.

Chic Brodie: The Social Enterprise Scotland submission suggests that some small private businesses should make a transition to social ownership—some of us might agree with such a move. How might that be done in the context of the budget and particularly that of the procurement bill that is coming down the pike? Does the budget fund the agencies sufficiently to allow such activity to be promoted, at least as a start?

Fraser Kelly: I suspect that the response would involve a consideration of how we design the market and the infrastructure given where the organisations are participating. We know that there are businesses that are trading ethically but which do not sit within the clear definition of a social enterprise—we should not get into a discussion this morning of what that definition is, as that would take us some time.

I apologise if I am coming back to a point that I mentioned previously, but we believe that there are opportunities in the budget around co-production and the design and delivery of services, with particular regard to where design is undertaken. We believe that there is a role for the private sector, the social enterprise sector, the voluntary sector and the public sector to be involved in the design of public services, but I suspect that that is a moot point.

Our submission mentions the Glasgow mapping exercise. There are 509 social enterprises in Glasgow, which generate close to £250 million in turnover and employ 13,500 employees. That is more than are employed by the food and drink industry and the creative industry, but people believe that we should invest more in those two industries than we invest in social enterprises.

Social enterprises are involved in the delivery of public services and in the delivery of services to the public. The public have a huge opportunity in how they buy goods and services—they can buy from ethical businesses and social enterprises. That will drive a change in how businesses are constructed.

Through the budget process, we have an opportunity to create markets and opportunities for social enterprises, so that businesses begin to see that that is a sensible route for them to pursue. The “Gie's a grant” mentality has gone from the social enterprise sector—it has been done and dusted for many years. This is about businesses that are delivering goods and services at the right cost and the right quality to the right markets and about creating market opportunity.

Many of our members deliver in the public service arena. Our members would ask where the integration of health and social care budgets is being undertaken and where that integration creates the best market opportunity. In the budget,

we have an opportunity to create those markets rather than simply shift resources from one point to another.

Chic Brodie: We know the size of the budgets that the enterprise agencies have. Have you or they considered the possibility of supplementing those budgets by using the European funding that is available for small businesses? Scotland has been excluded from applying for that funding because we are not a member state—yet. However, there are two agencies that can represent us. The COSME fund now stands at €2.3 billion. Should that course of action be followed?

Fraser Kelly: Absolutely. Access to structural funds is a challenge for us, and we have petitioned the Government on where that sits. I referred to the fact that other levers are available. They are outwith the budget's auspices; they concern European structural funds, Department for Work and Pensions commissioning, framework contracts and so on. The Scottish Government can legitimately petition the UK Government on those issues, but we are not doing enough of that.

The question of structural funds comes back to the commissioning process and who is in control of the structural funds. Previous experience in social enterprise and across the voluntary sector has been that accessing those funds has involved a difficult process. Some of that has changed and the process has become more flexible over the years. We know the programme values that are likely to exist between now and 2020. We absolutely must have greater access and greater control in the design of how the resources will be delivered.

Chic Brodie: Last week, we heard that the Government contributes to 330 funding streams that support small businesses and social enterprises. Would you care to comment on that, in the context of the areas of reduced spending that Mr Lonsdale referred to?

10:45

Fraser Kelly: There are a significant number of routes to funding. Social Enterprise Scotland strongly advocates differentiating between investment and funding. We need to look at how the resources are structured. Some are clearly about investment and changing how business operates in the voluntary and social enterprise sectors. The resources that are available in the third sector budget are much smaller than those in the mainstream economic development budgets. A transition process is required as the organisations that are operating in the third sector transition to a greater commitment and greater

contribution to the main economic development budgets in Scotland.

In my submission, I mention that resources should be allocated to increase business start-up rates and encourage business growth, but we should invest in our big players as well. There are social enterprise organisations that can create high labour absorption rates. They can create jobs and turnover and can generate profits. The social outcome that is achieved with those profits is the double bottom line—that is what is most important about the way in which social enterprise operates.

There are 330 doors to knock. There is merit in having a number of instruments and a number of ways to tackle the problems that we face. Simply putting one door in front of everyone would make the process much more difficult. However, I suspect that the 330 doors could do with a bit of rationalisation.

Hanzala Malik: Hello, and welcome to the committee. Mr Kelly seems to have got off reasonably lightly, but I have a couple of questions for him on social enterprises. A huge army of organisations is working away in the background. In your submission, you make the interesting comment that you see green shoots. Can you relate that to the budget? Where do you see the green shoots? Are you referring to previous budgets or to the new budget? Do you feel that it will be helpful and if so, how?

Fraser Kelly: My comment on green shoots is probably a recognition that the popular press have decided that the green shoots of recovery are evident, that we have stopped doing everything down and that we are a bit more positive about things. I am not saying that specific aspects of the budget suggest the green shoots of recovery.

I mentioned earlier that, as the economic situation recovers, the pressure on public finance is likely to continue for a period to come. Dave Watson mentioned that a couple of tough years are ahead, followed by one really tough year. That is absolutely relevant and a good analysis of where we are.

We see the growth in activity in social enterprise within the public service reform agenda. That comes back to the comments about where decisions are made on the integration of resources. We have some challenges in the traditional procurement mechanisms that local authorities use. For a number of years, we have advocated strongly that we should go down the public contracts Scotland route. However, that drives price competition, and price competition is a race to the bottom that takes quality out of the process and drives towards the price of a commodity.

We argue that we need to understand where the recovery is happening, how it is happening and who the drivers of it are. Part of that is about public opinion and people deciding to buy goods and services in a different way. It is also about the design of services within the public service reform agenda and ensuring that local authorities and statutory agencies—health boards and so on—understand that in the context of the proposed procurement reform bill and the proposed community empowerment and renewal bill. I do not think that any additional legislation is needed at the moment, as those statutory agencies have the ability to procure in a different way without additional legislation. They either choose not to do that or do not understand how to do that. There are other levers in the budget process that do not concern simply financial distribution.

Hanzala Malik: You said that Glasgow has 509 social enterprises and spoke about the 330 avenues for acquiring funding. I am trying to tie that down to the budget. What I witness in Glasgow day in, day out is the shrinkage of those organisations—they are dropping daily. How will the budget help them to survive rather than continue to die, as they are doing? Do you see anything in the budget that will help to support those organisations?

Fraser Kelly: Indeed. I mentioned in my submission that the enterprise ready fund, for example, is a welcome investment from the Scottish Government. I suspect that Ruchir Shah will want to respond on the impact of cuts on the voluntary sector and the organisations that are experiencing the most stress and pressure. Social enterprise is a slightly different model that involves trading services and generating surpluses, then using them to achieve social outcomes.

To come back to the question of investment versus consumption, Social Enterprise Scotland firmly believes that investment in social enterprise—I stress that investment is clearly different from funding—can achieve a double bottom line.

I am not sure whether you want Ruchir Shah to respond on the voluntary sector.

Hanzala Malik: I am just trying to see whether the budget offers anything new, because we need something new. We need an injection of something and a drive to sustain what we already have out there. I am trying to figure out whether the budget will help with that. If it will not, what do we need to do that will come up with the injection that is required out there?

Fraser Kelly: The budget does what you describe to an extent. I come back to the other issues on which the Government can be petitioned. We were recently involved in a

consultation on social investment tax relief. We foresee challenges in how that will be positioned, what it is intended to do, what the relationship between investor and investee will be and whether it is to achieve the financial return for the investor or the social outcome for the investee. There is a number of ways for us to respond and do things differently, but shifting money from one pot to another in the budget will not bring that benefit, whereas using the other levers that the Government has will.

Ruchir Shah: It is worth remembering that the allocations in the budget that are specifically for third sector organisations are very small—we are talking about the continuation of £23.5 million in the third sector budget. Some additional moneys are in welfare budgets and regeneration budgets—for example, the people and communities fund.

If we put that £20 million, £30 million or £40 million up against the sector's income, which the latest figures say is about £4.5 billion per annum, we can see that we can do only so much with that amount of money. However, those resources are important, because they are capacity-building resources. For example, the enterprise ready fund is for investment in capacity; it is investment to help organisations to get their operations such that they can win contracts, get more money and enter markets, so it is important.

There are lots of pressures on the voluntary sector, particularly from the welfare changes. Combined with the recession and austerity, that is driving up demand at a time when all the resources coming to the sector from all fronts—whether through investments that organisations hold, their trading, donations from the public, contracts or grants—are being squeezed.

We need to remind ourselves that focusing too much on the specific measures in the budget is not where the real game is; the real game is the big block of money that comes through local authority and NHS budgets. That is where we need to open up a recognition and understanding of the role that third sector organisations can play in meeting some of the outcomes that we seek.

Mike MacKenzie (Highlands and Islands) (SNP): My question is for Mr Lonsdale. If we look at the budget in aggregate, the biggest effect is a transfer from resource to capital. You surely welcome that as a good thing for Scotland's economy and businesses.

David Lonsdale: Yes, we do.

Mike MacKenzie: To touch on another part of the discussion that we have had this morning, do you agree that increasing our exports is an important part of improving our economy?

David Lonsdale: That is a tough question. I will say yes, but I can tell that you are about to lead me into a trap.

Mike MacKenzie: The point that I am leading to is that I am somewhat dismayed by the concern expressed this morning about the concept of leakage. We will be unable to increase our exports and improve our economy if we put up a trade border and say that we will not accept any imports of goods or labour from other countries. A protectionist discussion always arises to an extent in times of economic difficulty. Do you agree that it is unhealthy and misses the point?

David Lonsdale: This country benefits from being open to competition from companies coming here, just as companies from this country can go and win business overseas. The independent figures suggest that this country is very good at winning business overseas, particularly in construction and professional services. We would have more to lose from a protectionist approach.

The same applies to immigrant labour, in that we benefit from people coming here to work, for short or long periods. Perhaps we and others do not shout from the rooftops as often as we ought to about the benefits that we get from being open to new people, new talent and opportunities to win business overseas.

The Convener: Mr Watson is bursting to get in.

Dave Watson: I say for the avoidance of doubt that I am not arguing for trade protection. To be frank, the corn laws have had their day and I am not suggesting that we return to them. I am not saying that capital spending is a bad thing either; it is a very good thing, not least because we have lots of members tied up working in capital expenditure projects.

The issue is that it is sometimes forgotten that some of the big hits in the next few years will be on revenue spending. If we want to find the disgrace of the impact on revenue spending, we can look at what is happening to the workforce in the care sector. That involves a race to the bottom, with people being paid the minimum wage—in some cases, they are not even getting the minimum wage, because travelling time and other arrangements are not taken into account. That is a disgrace and it is driven by revenue cuts and the procurement issues that Fraser Kelly and Ruchir Shah talked about.

All that I am saying is that capital is important but revenue is important, too. Revenue spending has an impact on the quality of life in Scotland and how we drive our economy.

Mike MacKenzie: That is me—I am finished.

The Convener: The Manchester liberal Mike MacKenzie has had his final say.

We are almost out of time, but Dennis Robertson has another question.

Dennis Robertson: The question is for Skills Development Scotland. Good morning, Mr McGuinness. You had a glowing submission in some respects. I think that you are suggesting that you are extremely good value for money, which is always welcome.

My question perhaps goes back to the point that you discussed with Alison Johnstone. You are meeting most of your targets, which is commendable. However, in the areas in which you probably have more work to do, such as participation by black and minority ethnic groups and by disabled people and gender alignment, are you suggesting that you need more resources and more money or that you should realign some of your allocation of the budget to ensure that minority groups get a better hit?

Gordon McGuinness: I would always welcome more money, but I recognise where we are—

Dennis Robertson: It is not available.

Gordon McGuinness: I thought that you might say that.

This is about trying to get maximum leverage in those areas—Fraser Kelly touched on that. We are looking at the next programme of European structural funds. Historically, significant funds have been spent in those areas to get greater equality into measures.

In addition to working with as many partners as we can in order to learn from and influence them, we want to step up our efforts. We are doing a significant amount of work through the industry leadership groups. There had been criticism that we had not fully reflected our equality impact assessments in the work that we had done on the industry investment plans.

That has been more of a communication issue for us. We have taken the issue fairly seriously, and we will continue to do further work on it. Please do not think that we are in any way complacent about it. We will do more work on it and will develop the work that we have done.

11:00

Dennis Robertson: Are you looking at engaging in more partnership working and trying to get agencies such as OPITO in the skills sector to up their game on addressing gender imbalance and minority group employment?

Gordon McGuinness: Yes. OPITO is one of the agencies concerned. It is in the energy sector, but we are working right across the Government's key sectors. We have done interesting work on tourism. Through work with the industry bodies,

we recognised that there was a glass ceiling in that sector that was preventing many female managers and supervisors from making the next step up. Through innovative programmes that provide additional leadership and management support, we can start to tackle such issues in partnership with businesses and some of the trade organisations.

The Convener: I have a couple of questions on SDS's budget. You said at the start that you saw your budget allocation as a vote of confidence in the organisation's work but, when we look at the detail, we find that you are getting a 3.6 per cent real-terms cut. Is that a vote of confidence?

Gordon McGuinness: It is, given where other organisations are and the pressures that are on us. We have made and will continue to make efficiency savings. In the light of discussions that colleagues have had with officials, we are content with the funding that we have got.

In some areas, we have been successful in attracting additional revenue resource from other Government departments. We have done that on the back of developing strong propositions with industry. We are seeking to take that approach. As well as maximising the outputs from the allocations that we get, we are developing propositions and partnerships in an effort to attract additional investment.

The Convener: I am interested in the fact that you mentioned efficiency savings. As well as experiencing a top-line cut in your budget, SDS is a member of the strategic forum, which is budgeted to find £40 million of efficiency savings this year and next year. What is SDS's share of that £40 million? How will you find that money?

Gordon McGuinness: I cannot provide a specific figure. We are taking that forward in partnership. Some of those savings will come from collaborative work such as joint procurement and joint contracts. I cannot give you an accurate figure at this stage, but I could provide the committee with a submission on the issue.

The Convener: That would be helpful. The figure for the previous year was £25 million. Is SDS on target to meet its share of that £25 million?

Gordon McGuinness: I think that we are.

The Convener: It would be helpful if you could get back to us with further information on the issue.

In view of the time, we had better call it a day. I thank all the panel members for coming along. It has been very helpful to get your input.

11:03

Meeting suspended.

11:09

On resuming—

The Convener: Ladies and gentlemen, we will reconvene. I welcome our second panel. We are joined by Elizabeth Gore, deputy director with Energy Action Scotland, Dr Sam Gardner, head of policy at WWF Scotland, and Jenny Hogan, director of policy with Scottish Renewables. Before we start on questions, does anybody want to say anything briefly by way of an introductory statement? It will be helpful if you can keep it brief.

Jenny Hogan (Scottish Renewables): I will be as brief as I can be. I will make four short points. First, I want to try to put the Scottish budget into some perspective for renewables. I am sure that members are all well aware that by far the biggest drivers and barriers facing the growth of renewables in Scotland are in the hands of Whitehall and Westminster. In particular, that means electricity market reform, grid infrastructure and access costs. The Scottish budget, however, is significant, and for us the most important issues for the budget are demonstrating leadership in renewables; supporting research, development and deployment, particularly of wave and tidal energy; and building the Scottish supply chain and skills base, as well as creating a heat network in Scotland. That is where we would like to see the focus.

It is clear to us that the Scottish Government's support for renewables in previous budgets has been paying off. We have been meeting our purpose targets in the core areas that are of interest to the committee: sustainable economic growth and reducing carbon. We are also on track to meet our targets, although there are several challenges in the way.

My main point today is about heat. In our written evidence, we said that we would like to see a national indicator for growing renewable heat production in Scotland. We have one for electricity and, if we had one for heat, that would help us to ensure that we increase our budget in that area.

Finally, the draft Scottish budget that has been published looks positive for renewables. We welcome the extension of the renewable energy investment fund in particular and continued investment in the national renewables infrastructure plan for ports and harbours. We welcome the focus on offshore wind, marine, heat and community projects and would like to see a particular focus on heat.

Dr Sam Gardner (WWF Scotland): I thank the committee for inviting WWF to give evidence today. I would like to draw on a conclusion of a previous report by the committee, which was that the budget must give confidence that the targets of the Climate Change (Scotland) Act 2009 will be

met. That is the challenge that we set ourselves in looking at the budget and contrasting it with the report on proposals and policies. I am keen to discuss that issue further with members, particularly in respect of the housing sector and the shortfall that we see there.

My remaining point is that we recognise and welcome the committee's efforts to integrate the national performance framework with its scrutiny of the budget. We very much support that endeavour and would be happy to discuss that, too, with members.

Elizabeth Gore (Energy Action Scotland): Energy Action Scotland is grateful for the opportunity to give evidence to the committee. We are focused on fuel poverty and we recognise that it can impact on a number of different policy areas, be it energy, energy efficiency or housing. Our focus is on people who cannot afford to heat their homes. That is the bottom line of Energy Action Scotland's focus.

The Convener: Thank you. The areas that all three of you have touched on will be of interest to the committee.

I remind members to keep their questions short and to the point. It would be helpful if you addressed your questions to one witness rather than throw them open to all three. If you want to come in to respond to a comment from a witness, by all means just catch my eye and I will bring you in as best I can. I remind members and witnesses that we are here to take evidence on the Scottish Government's budget and, given the time constraints, we should, in so far as we can, keep our questions relevant to that topic without bringing in extraneous matters.

I will start with a couple of questions. Picking up on Jenny Hogan's point about renewable heat, the Audit Scotland report on renewables that was published last week focused on renewable heat and the lack of progress towards meeting the heat target. Looking specifically at the Scottish Government's budget, what is in the budget, or what more would you like to be in it, to try to progress the issue?

Jenny Hogan: There are various funds aimed at tackling the target. I am sure that my colleagues will touch on the ones that are of particular interest to them. I mentioned the renewable energy investment fund, which has come from the fossil fuel levy. That has been a very welcome chunk of money that has been targeted at marine, heat and communities projects. For us, when it comes to the specifics, that is what will be of most interest. We have seen the broad packages that will contribute to heat, such as the REIF, but we would now like to see how much money will be targeted

at specific parts of those sectors. Seeing that next level of detail would be of interest.

11:15

Dr Gardner: The focus on heat is welcome. It is clear that the Scottish Government is putting a greater focus on heat, with the promise of a heat generation policy statement later this year. However, the first thing that I find challenging is the granularity of the information in the budget. It challenges our understanding and ability to cross-reference it to, for instance, the ambitions of the RPP and the climate change target. In previous years, the Scottish Government has provided a breakdown of figures to level 4 and has tried to put the figures to budget headings that correspond with the RPP. Such a breakdown would help greatly in giving us confidence that sufficient funding is there to match the step change in renewable heat provision that we need in Scotland.

The Energy Saving Trust has calculated that we need in the region of a tenfold increase in the provision of renewable heat to properties in Scotland if we are to meet the ambition of 100,000 homes having renewable heat by 2020. A significant step change in effort is required and information in the form of level 4 figures would go some way towards giving us confidence as to whether the necessary level of funding is there.

The expert commission on district heating made a number of recommendations to the Scottish Government that were responded to in a district heating action plan. We welcome that action plan, as it shows a commitment to support district heating, but a number of recommendations on funding specifically to support district heating are not followed through in the plan. In particular, there was a request or recommendation to increase the district heating loan fund beyond a £400,000 limit to encourage bigger projects to come forward. Also, seed funding is needed to get projects to a place where they have a business proposition, as an awful lot of analysis and assessment work needs to be done in advance of setting up a district heating network.

Finally—it may be that the Scottish Futures Trust is doing this and I am just not aware of its conclusions—there is a need to look into how the public sector can underwrite or support the provision of piping infrastructure that is larger than immediately necessary. Often when district heating goes in, it is fitted to the number of properties that are initially connected to it and is not future proofed against the potential for further connections, because the piping is of a scale that does not allow for that. It is a challenging investment proposition to ask someone to invest in what is regarded as a new technology in Scotland

and the UK—obviously, it is common elsewhere in the world—and which is buried assets. There is a need for public sector involvement to try to provide confidence that long-term infrastructure will be in place to which properties can connect as and when they change their heating source.

The Convener: Elizabeth Gore, do you want to add anything on the heat issue?

Elizabeth Gore: Colleagues on the panel have covered the wider issues—the bigger picture—but taking it down to a more personal level, it is important when we look at bringing new technologies into people's homes that there is support for people who are perhaps in more limited economic circumstances and who do not have the capital to spend on bringing new technologies into their home. There are some funds to do that, but we need to promote those funds so that people know that they are there to be taken up. That needs money, but there is also a need for support and information and advice on issues such as how to operate the technologies, which system might be better for individuals and what suits their circumstances and house type. That sort of advice provision also needs funding.

The Convener: That is an interesting point. Yesterday, we had an interesting debate in the chamber on the coal industry in Scotland in which Mr MacKenzie made a point about people in rural areas still relying on coal fires for heating and how we can encourage other sources of heating.

Other members want to come in, but I will ask Elizabeth Gore one more question. In John Swinney's budget statement, he announced a £20 million fund to mitigate the underoccupancy levy that is being brought in by the Department for Work and Pensions. Half of that £20 million comes from the 2013-14 home energy efficiency scheme. Do you have concerns about that?

Elizabeth Gore: That was a very bittersweet announcement. On the one hand, the funding stays within what we could class as an anti-poverty programme, which is welcome, but on the other hand there is concern that there was an underspend at all on fuel poverty programmes, particularly when we are only halfway through the year.

From speaking to officials since the announcement, I understand that there has been a system problem, if we can use that term. This year, the Scottish Government has redesigned its programmes for supporting people in fuel poverty. With the best of intentions, those were dovetailed with the programmes that the energy companies—the fuel utilities—have to deliver, specifically the energy companies obligation. We support that and the fuel poverty forum supports it, because it means that we do not duplicate effort or chase the

same people and that we make the best use of the available funding. However, there have been delays in any new programmes being set up, never mind two large programmes coming together that come from different sources and different Governments.

The anecdotal evidence that we have received from people working in the field is that the energy companies obligation in particular is quite onerous, as the reporting is onerous and the collection of the evidence that householders have to give, such as the proof of ownership and proof of benefits, is also onerous. It has therefore taken time for the programmes to bed in.

That said, the money has still been lost to the fuel poverty programmes. That is of concern and we all need to be absolutely sure that, whatever teething problems there have been are not more serious than that, are not endemic in the system and can be addressed. I understand that this year's underspend in the home energy efficiency programme for Scotland was complemented by an underspend from last year's energy efficiency programme, which was coming to an end. We would not like a pattern to form whereby the underspend is carried forward.

The Cabinet Secretary for Finance, Employment and Sustainable Growth also announced in his statement that the fuel poverty budget for next year will increase. That is welcome, but I put it to the committee that the headline budget at the start of the year is only part of the picture. We have to know that the money is being spent, how it is being spent and whether it has been effective. We therefore need very good reporting and monitoring, which must be better than what has been done to date.

Dr Gardner: I have a brief addition to those comments. I will touch on the total fund that is available for energy efficiency and fuel poverty. The cabinet secretary described it as a £200 million annual budget, of which £79 million comes from the public purse and the rest is to be levered in from the private sector. However, I am not sure that we have the information or data to show that that ratio is being met. It would be welcome from our point of view as stakeholders—and, I suspect, from the committee's point of view—to have annual reporting on the breakdown of public and private sector investment in our energy efficiency programmes.

The Convener: Thank you. A couple of members want to come in. We will start with Chic Brodie.

Chic Brodie: Good morning. My question, which follows on from the previous questions and yesterday's debate, relates to Sam Gardner's

point about the leverage of private investment and is about heat generation.

We already use geothermal energy sources to heat houses in the east end of Glasgow. Given that warm water flows through our disused coal mines and underneath the earth, do you have any proposal that we might divert some of the allocated moneys to the promotion of such heat sources?

Dr Gardner: I would not recommend diverting existing funds from the pots for energy efficiency or the renewables fund, which we are concerned about today. However, there is a need to increase funding for renewable heat and particularly for the provision of district heating.

In some instances, we are not necessarily talking about significant sums of money, as it is about the provision of advice, template contracts and legal advice to give comfort to businesses and local authorities who are going into potentially long-term arrangements on the procurement of heat for a number of years that it is a safe proposition for them. Steps can be taken to remove some of the barriers.

More fundamentally, we need to consider whether it is reasonable to expect that the private sector will make the necessary investments for large-scale infrastructure provision of district heating, given that, as I understand it, there is an absence of any regulatory framework that gives the sector comfort that it will have a market.

With examples from around Europe where district heating is a prominent heat source, we find that, in many instances, public sector infrastructure has been put in place as a core network, which has then provided a revenue stream to the public sector as private investors connect to it and take the heat to individual properties. Copenhagen has a crude concentric circle network, the bulk of which was originally provided by the state and is rented out to utilities for the provision of heat and connection to individual properties.

A lot of work still needs to be done to explore how we put in place large district heating networks that go beyond the small number of properties that we have seen to date. The national planning framework has an important role in signalling a clear intention as to where district heating is appropriate. The public sector has a role in providing a presumption of connection, because heat loads are critical to provide stability of revenue and diversity of tenure. If we have large public sector properties that can connect to district heating, that could be the tipping point for whether something is a viable proposition or not.

Chic Brodie: On that hypothesis, given that developers of renewable wind energy generate

and distribute money through community benefits, would it be a good idea to put that money into things such as fuel discount schemes, which might apply to heat generation schemes?

Jenny Hogan: I am happy to start on that. You are correct that, so far, most of the community benefit schemes have been from onshore wind. I think that about £5 million per year has come from the community benefit register, so it has been a good contribution. One of the successes of the schemes has been flexibility for communities and a choice about what they spend the money on. However, we would certainly agree that being able to use that money on things such as energy efficiency would be welcome and wise.

Chic Brodie: It would be better than buying football shirts for the local team.

The Convener: I think that we are slightly getting off the topic of the Scottish Government's budget. Could we try to stay focused on that?

Chic Brodie: What I am getting at is that there is a sum of money that could be complementary to the budget in achieving the objectives that we are talking about.

Jenny Hogan: I would not disagree that that source of funding could be used in that way, but I would be cautious about directing that money because communities need to have a say in decisions on what the money is spent on.

Mike MacKenzie: I am interested in Elizabeth Gore's point about the various fuel poverty measures dovetailing so that they work effectively.

Do you agree that one of the real difficulties is not so much the amount of money allocated in the budget in any given year and particularly this year but that, because some of the schemes such as ECO and the green deal are relatively new, it is very difficult to anticipate at this stage where the Scottish Government can best put the money to complement them? They seem not to be working as well as they might. Is that a fair comment?

11:30

Elizabeth Gore: It is very laudable to have programmes working together. Of course, the concept is not new; the same one-stop-shop approach was taken in the previous energy assistance package. Consumers seeking advice and wanting to find out whether they were eligible for grants had one point of contact and the work was done for them behind the scenes.

We know what needs to be done to address fuel poverty, and the presence of an underspend does not indicate that there is no problem, that we do not know what the solution is or that local authorities are unwilling to take up the funding. It

has been a timing issue as much as anything. The fact is that certain areas in the Scottish Government programme could benefit from more funding, and indeed the situation could be addressed with more funding. The system needs to be looked at and smoothed out, but more funding would increase the number of people being supported and taken out of fuel poverty in the longer term.

Mike MacKenzie: More funding would always be better, but we do not have a money tree. How do we achieve maximum impact with scarce public resources?

Bearing in mind the failure to deliver of the previous community energy saving programme and the carbon emissions reduction target, I wonder whether it would be wiser to take a more prudent approach and wait and see how some of the UK initiatives, which I think you will agree are the major ones, are working on the ground. I am sure that you will agree that the green deal, for example, has got off to a disappointing start and that it might not be the silver bullet of policies; in fact, it might even be a dud. Given the need to get maximum benefit from slender resources, is the Scottish Government's precautionary approach not the wise course of action?

Elizabeth Gore: I do not think that we can wait and I do not think that it would be wise to wait. The fuel poor cannot wait for assistance; they need it now. The Scottish Government cannot wait if it is going to meet its targets. Indeed, I do not think that the Government is waiting; it has introduced a number of incentives to bring energy companies into Scotland—ECO work, as it is known. We have a lot of experience from the previous programmes, and that needs to be brought to bear.

The green deal, which is a private sector-led programme, is not and was not intended to be a programme for the fuel poor; it has a different purpose. ECO was introduced because it was recognised that vulnerable, hard-to-treat, off-gas-grid homes need particular assistance but, for it to work effectively, it needs the green deal to work. I am sure that that issue is being addressed at the moment, but the general view is that the programmes need to work. There is no plan B.

Mike MacKenzie: But where best can the Scottish Government spend its resources to complement the green deal and ECO? I certainly think that there is an overlap between the two. I speak to many people who are trying to make projects work in a very complex funding situation. Many district heating schemes, for example, are barely viable, and the people involved are having to deal with complex funding arrangements with crossovers from the green deal to ECO to the district heating loan fund—and even then the projects can be very marginal.

Where best can the Scottish Government apply its funding to unlock potential and make all those schemes work in a complementary fashion?

Elizabeth Gore: Energy Action Scotland was supportive of the move that was recommended by the fuel poverty forum to have a two-pronged approach. One involves delivering support with an area-based programme so that local authorities, which are perhaps best placed to know the condition of housing, fuel poverty levels and areas of fuel poverty in their areas, could direct assistance at those areas first. That programme is now being rolled out.

EAS also argued that there still needs to be a reactive scheme in which individuals who do not live in those initially targeted areas could apply for and get help because they need it immediately. That was recognised, and the issue has been taken up by the Scottish Government under HEEPS. I understand that the promotion for that is just about to start, so we should start to see its benefit over the coming year.

Mike MacKenzie: I have a couple of questions for Jenny Hogan on a similar theme.

Jenny, I think that you said in your opening statement that the biggest driver of renewables is really Westminster policy, energy market reform and a range of problems with that, such as grid connection charges, transmission charging and grid capacity. Maybe you could confirm that. It seems to me that there is a common theme: the Scottish Government can do only so much, and we have an impediment in the UK Government not moving ahead quickly enough to realise the opportunities of renewable energy. Is that a fair statement?

Jenny Hogan: The fact that next year's budget is relatively low and the following year's budget is significantly higher has certainly been reflected in the draft Scottish budget. The budget clearly states that that is largely due to the delays and uncertainties that have arisen from EMR in particular. That certainly has a big impact but, as I said, there are areas in which the Scottish budget can still have an impact, such as leadership and R and D.

I agree with everything that Sam Gardner said earlier about district heating networks and the fact that the public sector has a big role to play in creating that infrastructure. We simply cannot leave that to the private sector, so that is a big area in which the Scottish Government can make a difference.

There is a big role for us still to play in wave and tidal technologies, improving R and D, and helping those technologies to scale up, and in ensuring that we build our supply chain for offshore energy.

The Scottish Government can make a difference in those areas, and it is doing so.

I did not mention ports and harbours, but there is the national renewables infrastructure plan. It is taking time to see the private investment come in, but progress is being made. That is another important area that the Scottish Government can continue to focus on.

Mike MacKenzie: On getting the maximum impact from slender public resources, do you think that, given the investment hiatus that we have seen largely as a result of energy market reform, the Government's strategy within the budget is wise? We hope that energy market reform will hit the right strike price levels and the Scottish Government can supply the extra investment that is required to leverage in maximum advantage at the right time—but not prematurely, when it may not have the desired effect.

Jenny Hogan: That is basically what I am saying. It is the correct approach but, as I have said, the devil will be in the detail. We will be very interested to look at how the budget is split up between the technologies. We need to ensure that a significant proportion goes on heat—that is what we will look to see next. However, the approach is certainly correct.

Dr Gardner: I want to go back to the funding levels for fuel poverty and energy efficiency. I think that I am right in saying that this is the first occasion when the committee has had a final RPP and a draft budget in front of it. In all previous years, it has had either a draft RPP or a draft budget; the two have never sat next to each other.

I am not sure that that necessarily makes the committee's job any easier but the RPP's transparency improves between its draft and its final conclusion. It provides an indication of the total cost of policies and proposals, and then the grand total. That cost is not just to the public sector; it is the total cost of delivering the package.

It is instructive to look at the step changes in funding that will be needed in the coming years that are indicated in the RPP, whether it be for the homes and communities section or for the business, industry and public sector section, in which there are significant increases in the cost of proposals. For example, in 2013, there is a £24 million proposal expectation for homes and business, industry and the public sector, but that leaps to £72 million in 2014 and £91 million in 2015. I stress that that cost will not all be put on the public sector, but we need to look for a fingerprint of that in the budget to see the change reflected. We cannot see it with the level of information that has been provided in the draft budget; perhaps level 4 figures will give us some confidence.

The RPP provides a useful reference to the level of support that is needed if we are to be confident about meeting our climate change targets. That is one of the things that we want to see coming out of the budget.

The Convener: We should get the level 4 figures on 25 September, which will help to inform our discussions.

Hanzala Malik: I welcome the witnesses to the committee.

Elizabeth Gore said that it is important to note that no proper monitoring of the fuel poverty measures is being done. I agree with that. What sort of monitoring would be helpful? Would a quarterly report be helpful and, if so, should we take steps to put that in place so that we can monitor the situation more closely? We do not want to fall short of our aspirations again.

Elizabeth Gore: It is interesting that we are talking about the timing of reporting. Timing is everything. The Scottish fuel poverty forum is meeting today, and it has been taking on board the recent announcements. I understand that the question of reporting and how the new schemes will be reported on is one of the forum's agenda items. Perhaps I can come back to the committee with information on that at a later point.

On the reporting that has been done to date, the fuel poverty forum consistently asked for reporting of the previous schemes, but it was not forthcoming. We need information on budget expenditure and we need to see what that is achieving: what are the outputs and outcomes of that spending? What scenarios are in place at the start when we get the headline budget figure? What can we expect to achieve in terms of physical measures, advice provision, and the other add-on services that can be provided to help people to get out of fuel poverty? I am thinking of measures such as maximising income, giving tariff advice, or signposting people to information. They all need to be part of a fuel poverty programme.

From the outset, we need scenarios of the outcomes that can be expected, and we need to see whether they have been met, as well as whether the budget has been spent.

Hanzala Malik: You have been reluctant to put a time frame on what reporting period would be helpful. I specifically mentioned a quarterly report. Are you looking for more regular reports than that? Do you think that a quarterly report would be sufficient to start with?

Elizabeth Gore: I cannot see how anything longer than a quarterly report would be helpful. If we are to take any sort of remedial action and report responsibly on the effectiveness of a

programme, the report would need to be at least quarterly.

I suppose that I am hesitating because I said earlier that the onerous reporting under ECO, because of its detail, is one of the problems. However, ECO is reporting publicly and monthly already, despite its difficulties, so we would like to see reporting start very soon on the Scottish Government programmes.

11:45

Hanzala Malik: I recall the Government bringing a report and, when I asked how frequently we would get reports, I was told that it would happen as and when there was change. After listening to the evidence this morning, I think that it is imperative that we get regular reports and that I was being very generous when I suggested a quarterly report. That is why I asked the witnesses, who are experts in their fields, whether they felt that that was generous enough or whether they would want more regular reports.

As you indicated, Elizabeth, there is going to be some discussion on this issue, so you might want to come back later to the committee with recommendations that might be helpful to us.

Elizabeth Gore: I believe that the ECO programme is reporting monthly. I think that the intention under the old Scottish Government programme was to report monthly. However, I am sure that the committee can have direct access to the fuel poverty forum's discussions to date and information on what is being proposed to it and what it feels would be useful.

Hanzala Malik: That would be very helpful. Can I ask another quick question on the same topic, convener?

The Convener: Okay.

Hanzala Malik: Reporting simply tells us where we are at any given time. I hope that the witnesses can advise us on how, if we are falling behind—as we did the last time round—we can fast-track issues so that we can catch up, if possible. We want to deliver on the commitment that we have made, but I also want to look at the previous failures to see how we can catch up. If we are serious about wanting to do that, I am sure that the Government would welcome any advice and support that it can get. What would you suggest?

Elizabeth Gore: EAS as a charity is often at the interface of talking to people in Government and the Parliament, to advice agencies that come to us for information and to companies that work in the field of energy. We are often at the middle part of the communication line. People from various parts of the fuel poverty field come to us with information that is sometimes anecdotal, but it

indicates whether something is working well. We want to fix the parts that are not working well and do more of the parts that are working well.

Perhaps there could be a formal or informal feedback system into the programmes, which may or may not need to come through Energy Action Scotland. People working at the front line with customers, who are taking calls and can see a pattern forming, can feed back into the programme managers that something needs to be looked at and ask whether other advisers or call centres are finding that as well. That should be viewed not as negative criticism but as positive feedback to try to improve the system. That is perhaps one way to make improvements as we go along.

The Convener: Marco Biagi has a question on the same subject.

Marco Biagi: I should probably know the answer already. Does ECO reporting include disaggregation of the nations in the UK or is it UK wide?

Elizabeth Gore: That is a good question, because ECO is an obligation across Great Britain and there is no ring fencing for Scotland. Under the previous CERT programme, the Scottish Government had an informal agreement with the UK Government, primarily with the Department of Energy and Climate Change, to report on expenditure across the companies in Scotland. We hope very much that that will continue under ECO. It would be in the Scottish Government's best interests, given that it is encouraging the introduction of ECO. You would need to put your question to the Scottish Government.

Marco Biagi: If the information is not being reported at the moment, the question is why.

Elizabeth Gore: I do not know the answer. The information was not reported publicly; there was informal reporting from a UK Government department to the relevant Scottish Government department.

Marco Biagi: So the ECO reports that you refer to are public, but do not include Scotland-specific data.

Elizabeth Gore: I do not think that the information is broken down by country. I hope that the informal agreement will continue under the new programme.

The Convener: That raises an interesting question, to which we might not be able to find the answer today. The Scottish Government's budget to address fuel poverty is predicated on £130 million a year coming in from energy companies, but you say that we do not know whether that money is coming in, because the reporting does not give us that detail.

Elizabeth Gore: I am not aware of such detail at the moment. It was not available publicly under CERT either. That is why your point is apt.

The Convener: The committee will need to look into that.

Dr Gardner: I echo all that Elizabeth Gore said about the need for reporting. To reinforce that, we need reporting on the assumptions that the RPP makes about the annual carbon savings that the budget will deliver. I have made the point before to the committee, which made the point in its recommendations on the RPP, that we need to strengthen reporting and monitoring of delivery of the programmes that are set out in the RPP. Quarterly reporting on the roll-out, the effectiveness and the take-up of measures under HEEPS would be valuable in confirming or testing the assumptions that the RPP makes about the emissions abatement levels that we will achieve.

Margaret McDougall: Many of the questions that I was going to ask on fuel poverty have been asked.

The Housing (Scotland) Act 2001 requires the Scottish Government to eradicate, as far as possible, fuel poverty by 2016. Are you saying that we will not meet that target? The number of households that are living in fuel poverty is increasing—900,000 households are now in fuel poverty. Do you agree that the Government will fail to meet the target and that the budget will in no way help it to reach the target?

Elizabeth Gore: I am grateful that you have pointed out that the fuel poverty target is statutory; it is often mistakenly thought to be a policy aspiration, but it is a duty on the Scottish Government. For a number of years, achieving the target has been challenging, but it is not impossible. The current funding levels and especially the seesawing in the fuel poverty budget in the past few years mean that there is unlikely to be enough but, with the will, the target can be met.

All the activity is making a difference—it is not the case that what we are doing is not the right thing or is ineffective—but it is challenging to bring the housing stock up to the energy efficiency standard that is required, to bring people on board and to win hearts and minds. The income side of the equation also needs to be boosted. Addressing fuel poverty is also about maximising people's incomes and supporting them through wider anti-poverty strategies.

Tackling fuel poverty has a preventative spending aspect. For example, taking someone out of a cold damp home and into a warm dry home might mean that less needs to be spent on some health problems, which has an impact on health budgets. More resources need to be put in

to meet the 2016 target, which is challenging but not impossible.

The Convener: Before I let Margaret McDougall back in, I want to clarify one issue. Given that the 2016 target is statutory and legally binding, what happens if we do not meet it? What are the sanctions? Will anyone go to prison?

Elizabeth Gore: That remains to be seen.

The Convener: Can you assist, Dr Gardner?

Dr Gardner: All I can do is draw a comparison with the targets in the Climate Change (Scotland) Act 2009. We have missed two of them and, to date, no one has gone to prison. If it is anything like that, the only sanction for missing the 2016 target will be parliamentary and public scrutiny of the failure.

The Convener: I will bring Margaret McDougall back in. Sorry about that diversion, Margaret.

Margaret McDougall: Thank you for stealing what was to be my next question, convener.

We have heard this morning that monitoring and reporting could be improved and that the private sector could do more, given that it will be responsible for almost two thirds of what will, according to the Government, be required to eradicate fuel poverty. What one thing do we and the Scottish Government need to do to meet the 2016 target? I might be pre-empting your answer, but can it happen only through financial resources?

Elizabeth Gore: Financial resources are always important, but we need to bring resources together; I mentioned cross-cutting among departments.

I believe that the usual term for this sort of thing is “silo effect”. We need to consider the impact, beyond pure energy efficiency, of bricks and mortar and come back to the effect on people and to meeting the aspirations of Government— whoever is the Government. Of course, there is no single easy answer. We need to do more of what we are doing at the moment, and we need a concerted effort to bring everything together.

Margaret McDougall: Surely we need better monitoring to ensure that we do not have such underspends. You also said that some of the applications that are required of individuals are onerous. Why are they so onerous? Can the process be made easier so that it can be speeded up?

Elizabeth Gore: The part of the programme that you refer to and which I might have called “onerous” is actually part of ECO, which stems from the UK Government. Nevertheless, the Scottish Government could do things to mitigate the effects of the situation.

At the moment, to ensure that effort is not duplicated, the rules stipulate that a householder who is eligible for the ECO programme cannot be eligible for the Scottish Government part of the scheme, which is supposed to step in and fill any gaps. However, we are getting anecdotal evidence that for some people that system is not working. For example, a very old and inefficient electric heating system or a system that is not working at all could be replaced under ECO, but no supplier or fuel utility company is offering a new electric heating system as part of their mix of measures. Technically, the householder in question is eligible for ECO, but they are not getting what they need and the Scottish Government part of the scheme cannot step in as intended and fill the gap because, technically, the householder is ineligible for it. That anomaly needs to be sorted out. That is where extra expenditure could help.

The Convener: Marco Biagi has what I hope will be a brief follow-up question.

Marco Biagi: Three factors feed into fuel poverty: energy efficiency, energy prices and incomes. Could you put those three factors in order and tell us which is currently the biggest contributor to the unfortunate increases in fuel poverty?

12:00

Elizabeth Gore: You are right that all three of those factors are causes of fuel poverty. The most recent thing on everyone's radar has been the rise in energy prices—very few people are unaware of the costs of gas and electricity—but a longer-term problem is our failure to address the energy efficiency of homes. That problem has built up over a number of years and will take a number of years to solve through, say, retrofitting. As far as timescales are concerned, one factor is more recent and the other has been building up over time.

Marco Biagi: Which has been the biggest contributor to the increases since 2008-09? Since then, we have had a considerable retrofit scheme that we did not have before.

Elizabeth Gore: Increasing energy prices are widely recognised as being the main cause of the rise in fuel poverty.

Alison Johnstone: My question is for Sam Gardner. It is clear from its evidence that WWF Scotland sees the budget process as something of a groundhog day. You say that there has "consistently" been

"inadequate support for key areas to enable the transition to a low carbon economy",

which is disappointing when we think about all the jobs that could be created, all the emissions that could be cut and all the bills that could be reduced.

Why, in your submission, do you state the importance of removing

"the reference to 'increasing sustainable economic growth' from the Single Purpose"

of the national performance framework? Would the budget deliver better outcomes as a result and would funding be directed differently and in a way that might ensure that we were investing enough in energy efficiency and active travel?

Dr Gardner: There was quite a lot in that question, so I will take things one step at a time.

First, on your reference to "groundhog day", I should say that those were your words but I think that they are true. I suspect that they reflect the committee's own annual view of the budget. Looking back over parliamentary questions, I note that on average £54 million has been allocated annually to fund what was the universal home insulation scheme and which is now HEEPS. That has to be seen in the context of the Energy Action Scotland fuel poverty forum's reference figure of £200 million a year for a 10-year programme from 2006 to 2016. Year on year, therefore, we have fallen well short of the benchmark for what is necessary, and with every passing year the challenge gets more and more significant. In the housing sector, for example, only 42 per cent of lofts have 200mm insulation, a third of cavities need to be insulated and there has been only a 2 per cent or so increase in solid wall insulation since 2007. There is a big job to be done here.

The question of the extent to which the budget aligns with the national performance framework and is influenced and shaped by its purpose is a good one. The evidence to date suggests that the budget is not aligned across the broad spectrum of indicators in the national performance framework, and there is a job to be done in broadening the framework's purpose to ensure that it better reflects a flourishing Scotland with improved wellbeing for all and does not set out any singular purpose around the measure of GDP.

If we were to do that, it would open up the budget process and the identification and allocation of priorities to a greater range of areas, and provide strength in funding for work on things such as the energy efficiency of our housing stock, which, as Elizabeth Gore said, would go a long way towards tackling fuel poverty, improving health, reducing costs to the NHS and creating jobs.

First, we have to integrate the national performance framework with the budget. To date, we do not see that happening, so the committee's

identification of the national performance framework is welcome. Once we have done that, we have to broaden out its purpose and, rather than give it the overriding aim of pursuing GDP, engage with the other measures of wellbeing that I know many members have engaged with in recent years, such as the Oxfam humankind index and the ecological footprint index that was at one point part of the national performance framework.

At the moment, we have two sustainability indicators in the purpose indicators. One of them is out of date in that it is to reduce climate change emissions by 2011—we have moved on from that—and the other is for 2050. There is a need to broaden those out to better reflect our true environmental wellbeing. That would go an awfully long way towards making the case for a better allocation of funds to deliver a better, more flourishing Scotland.

Dennis Robertson: We have covered a lot of ground. I emphasise that what the cabinet secretary has put forward is a draft budget. He is at great pains to say that it is a draft, and he would welcome ideas from anyone on how to realign his budget in ways that will make a difference. Marco Biagi made the point that, for the consumer, the single biggest thing that impacts on them and increases their poverty—not just fuel poverty—is their energy bills. I think that all consumers would agree with that. How can the budget best be aligned? What changes would you suggest to the cabinet secretary that would have the biggest impact, given that we have a block grant and he cannot supply additional moneys. We have the block grant and we have the budget. How would you realign it to meet specific needs? Perhaps Energy Action Scotland could respond first.

Elizabeth Gore: We acknowledge that the proposed budget for next year is higher than was anticipated but, as I said, more would be helpful. Where that money is taken from is not something that we would—

Dennis Robertson: But is that not the problem? People say that more would be helpful, but they are not willing to come forward and say that we should take it from somewhere else.

Elizabeth Gore: That is really a matter for the Government and for business.

Dennis Robertson: I appreciate that. What I am saying is that it helps the cabinet secretary to align his budget if people come forward with positive solutions. Surely it is not the Government's job to mitigate the constant hikes in energy prices, which result in poverty. The money has to come from somewhere.

Hanzala Malik: Convener, I think that it is a little unfair to ask people who have come to give evidence to find other pots of resource, particularly

when we put them in a position where they are trying to—

Dennis Robertson: I suggest that it is not. I am saying that, basically, we are trying to align the budget.

The Convener: Can we please not have members talking over each other? Hanzala, with respect, I think that it is a fair question. If people propose spending more money in a particular area, it is perfectly fair to ask whether they have thought about where that money might come from. I dare say that, if I asked Dr Gardner that question, he would have the roads budget in mind—would he? [*Laughter.*]

Dr Gardner: I have the roads budget in mind.

The Convener: I took the words out of your mouth.

Dr Gardner: However, before flagging up the roads budget and the £145 million or £150 million saving from the Forth road bridge, I would say that both the fuel poverty target and the climate change target are statutory targets and the budget should give absolute confidence that every last effort is being made to ensure that they are hit.

The track record over the past five years is that funding has been significantly short of what was advised and it is now the Government's policy to aim for a budget of £200 million. Clearly the onus is on the Government to make the case that the funding is adequate to hit the targets. That must be done in the context of the RPP, which sets out approximate funding levels.

In previous budget scrutiny rounds, WWF Scotland has provided evidence that has flagged up the shortfall between what is needed to achieve our climate change targets and what is currently available. We commissioned an analysis from independent consultants that suggested that it would cost £4.6 billion to hit a 36 per cent reduction in our emissions by 2020, whereas current funding totals approximately £1.5 billion. Now, one might quibble over the size of some of those numbers, but the gap is significant. The Government makes the case that the gap will somehow be matched by funding from elsewhere, but we do not see evidence of that. In that context, we are concerned that the draft budget does not provide the step change in action that we need to see to hit either our fuel poverty targets or our climate change targets.

The fact that emissions from the residential sector rose by 15 per cent between 2009 and 2010 and then fell by 21 per cent the following year highlights the volatility of housing sector emissions due to the exposure of homes to the vagaries of Scottish winters. Such volatility shows that we have not exerted control over our housing

stock in respect of the quality of the infrastructure and of people's ability to insulate themselves from cold winters and from fuel prices. WWF's consistent recommendation—this is no different from what we have said in previous years—has been that the budget for energy efficiency and fuel poverty should be doubled to approximately £135 million or £140 million. That would go a long way towards providing extra confidence that we will be able to hit those targets.

And, yes, the transport budget is an area from which we think funds could be redirected.

The Convener: I thought that you might say that. Does Jenny Hogan also want to respond?

Jenny Hogan: I totally back up what Sam Gardner has just said. From our perspective, yes we have a renewable heat target, but, as has been mentioned, the Audit Scotland report has highlighted that we still have a long way to go to meet that target and, indeed, the committee's report last year on the Government's renewable energy targets said something very similar. Yes, we would like to see resources put in to ensure that we meet the Government's renewable heat target. That links very closely to our discussions on fuel poverty, given that renewable heat has an important role in helping to reduce fuel poverty. Those things are very closely linked.

Dennis Robertson: I am sure that those views on the draft budget will be taken into account by the cabinet secretary when he draws up the final proposals.

The Convener: We look forward to that.

Marco Biagi: Regarding the roads budget, I am quite supportive of the idea of spending more on active travel, but I am keen to know which pot might be raided for that. I take it that, rather than use the £1.22 billion that is to be spent on buses, rail and ferries in next year's budget, you want to go after the £627.1 million that is to be spent on motorways and trunk roads. Is that correct?

Dr Gardner: That seems a sensible place to start. At the moment, the level of funding for active travel is in the region of 1 per cent of the total transport budget. If we are to have confidence that ambitions such as those set out in the cycling action plan are to be met, clearly 1 per cent will not be adequate. Although we welcome the additional funding that the cabinet secretary has earmarked for cycling, that seems a modest step in the right direction rather than a significant leap forward down the cycle path to a more active future.

An ambition of having 5 per cent of the transport budget aligned with active travel should be the immediate goal, but we need to look beyond that if we are to aspire to the levels of active travel that

we see among our European counterparts. In the roads budget in particular, a modest realignment would be required to deliver big changes in cycling infrastructure.

12:15

Marco Biagi: I appreciate that the 1 per cent target is good for the size of the overall active travel budget, but I assume that you do not want to touch the 60 per cent of the transport budget that goes into public transport. Therefore, the impact starts to scale up. Which of the level 3 figures—for example, the £85 million for PFI payments, the £74 million for winter maintenance, the £89 million for roads depreciation or the £25 million in structural repairs—would you want to take money out of? Even if we took away all of the £51 million that is to be spent on new roads, we would still not make the £100 million or 5 per cent target. Is that what you are looking for, or in practice are you looking to get more money into the transport budget from elsewhere?

Dr Gardner: The transport budget is skewed in favour of carbon-intensive infrastructure. For instance, on the proposals to dual the A9 along its length, WWF would contend that—

Marco Biagi: That is not in next year's budget.

Dr Gardner: Over the past five years or so, the balance of spend has been for a 40 per cent increase in the amount spent on roads transport. There is scope to realign what are relatively small amounts of money in the grand scheme of things, given the scale of the roads budget, so that we provide better support for active travel. That would deliver on climate emissions but also on health and air quality. The options are there for the finance secretary, in conjunction with the transport minister, to make those decisions and to prioritise it.

Marco Biagi: Sorry, did you refer to a time period of five years?

Dr Gardner: Yes. I can come back to you to confirm that.

Marco Biagi: That increase probably relates to the Forth bridge. Although people might have disagreed with the wisdom of going ahead with that in the first place, that ship has sailed—if that is not the wrong metaphor to use. Therefore, that does not really offer much flexibility for next year's budget.

The Convener: If I may interject for a second, I think that we are in danger of straying into the territory of the Infrastructure and Capital Investment Committee. I ask that we be a little bit careful not to extend this exchange too much.

Marco Biagi: That was my last question.

The Convener: Dr Gardner, do you want to respond to that?

Dr Gardner: There remains plenty of opportunity within the budget to increase funding for active travel and to reap the rewards that it offers. The draft budget should be improved to do that. Along with many others in the active travel community—Transform Scotland, Stop Climate Chaos and others—we have been calling for a doubling of that budget. Although doubling might sound like a big ask, in fact that would involve a very small change in the total funds available for cycling and walking.

The Convener: Okay, thank you. If there are no further questions from members, that concludes what has been a very interesting evidence session that has covered a lot of ground and will be very helpful to the committee.

12:17

Meeting continued in private until 12:32.

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e-format first available
ISBN 978-1-78351-685-8

Revised e-format available
ISBN 978-1-78351-701-5

Printed in Scotland by APS Group Scotland
