



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 26 February 2014

Session 4

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ECONOMY, ENERGY AND TOURISM COMMITTEE
5th Meeting 2014, Session 4

CONVENER

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

DEPUTY CONVENER

*Dennis Robertson (Aberdeenshire West) (SNP)

COMMITTEE MEMBERS

*Christian Allard (North East Scotland) (SNP)

*Marco Biagi (Edinburgh Central) (SNP)

*Chic Brodie (South Scotland) (SNP)

*Alison Johnstone (Lothian) (Green)

*Mike MacKenzie (Highlands and Islands) (SNP)

Hanzala Malik (Glasgow) (Lab)

*Margaret McDougall (West Scotland) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Hugh Andrew (Birlinn Ltd)

Dr Margaret Anne Craig (Clyde Biosciences Ltd)

Robert Kilgour (Dow Investments and Renaissance Care)

Dan Macdonald (Macdonald Estates)

Gordon MacIntyre-Kemp (Business for Scotland)

Marie Macklin (Klin Group)

Jenny Marra (North East Scotland) (Lab) (Committee Substitute)

Jim McColl (Clyde Blowers Capital)

Ann-Maree Morrison (Labels4Kids)

Rupert Soames OBE (Aggreko)

Norman Springford (Apex Hotels Ltd)

Ben Thomson (Inverleith LLP and Reform Scotland)

CLERK TO THE COMMITTEE

Stephen Imrie

LOCATION

Committee Room 4

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 26 February 2014

[The Convener *opened the meeting at 09:34*]

Scotland's Economic Future Post-2014

The Convener (Murdo Fraser): Good morning, ladies and gentlemen. Welcome to the fifth meeting in 2014 of the Economy, Energy and Tourism Committee. I welcome members, our witnesses and guests in the gallery, and I remind everyone to turn off or, at least, turn to silent all mobile phones and other electronic devices so that they do not interfere with the sound system. We have received apologies from Hanzala Malik, and we are joined by Jenny Marra as a substitute—welcome, Jenny.

Item 1 on our agenda is the continuation of our inquiry into Scotland's economic future post-2014. I welcome our first panel of witnesses: Robert Kilgour, who is the chief executive of Dow Investments and the chairman of Renaissance Care Scotland; Rupert Soames, who is the group chief executive of Aggreko; and Norman Springford, who is the chairman of Apex Hotels. I welcome you all. We were going to have Dr Maitland Mackie on the panel, too, but, for understandable reasons—he has suffered a recent bereavement—he has had to withdraw. We send him our best wishes.

Given the time constraints, rather than have opening statements we will move straight to questions. In view of those constraints, I remind all members to keep their questions as short and focused as possible. Similarly, it would be very helpful to have short and focused answers. If a witness would like to respond to a question that has been directed at someone else, I ask them to catch my eye and I will bring them in, as time allows.

I will start with a general question for all of you. What would a yes vote in the referendum in September mean for your business? Would you like to start, Mr Soames?

Rupert Soames OBE (Aggreko): I think that you will get very different answers from different businesses, depending on the nature of the business. The answer that you will get from purely domestic businesses such as hotels and care homes, the majority of whose business is in Scotland, will be different from the answer that you

will get from businesses such as ours. Of our 6,500 employees, only 10 per cent are in Scotland. Although 25 per cent of our payroll taxes are paid in Scotland, we manufacture here and we export to more than 100 countries. You may find that there are differences in concern and approach.

There are five areas in which we have concerns. The first is to do with the administrative complexity and cost that will result from putting borders where there are currently none. The other areas are the currency, the European Union, taxation—to an extent—and energy, which happens to be our business. Those are the five main areas of concern for us.

Robert Kilgour (Dow Investments and Renaissance Care): I have some businesses across the border, but my main business at the moment, which is in the care home sector—one of the sectors that Rupert Soames mentioned—employs 750 people in Scotland, is headquartered in Musselburgh and operates throughout the country.

I am endeavouring to continue to do what I have done for the past 30 years, which is to attract investment and create jobs in Scotland. Although I accept that Scotland could survive as an independent country and certainly would not leave the country if there was a yes vote in September, I firmly believe that independence would not be in the best interests of Scotland or the Scottish people and that it would certainly not be good for the business prospects of any of my businesses from the point of view of attracting investment and creating more jobs in Scotland.

Norman Springford (Apex Hotels Ltd): I will nail my colours to the mast and say that I will be flying a union flag.

We are a small Scottish company. We have roughly 800 employees in Scotland and the rest of the United Kingdom, and our employees in the rest of the UK are mainly in London. We have consulted a large number of our employees informally and the message is that we are probably all in exactly the same boat. We are concerned about the uncertainty that the whole process is creating and about the lack of clarity of message from both sides of the debate. If there is a yes vote in September, we will not leave Scotland. We will, in effect, make the best of the bad legislation, but it will have an effect on the future job prospects of our employees. That is their main concern.

The Convener: Can you expand on your last point? What would be the negative impact on your business prospects of a yes vote?

Norman Springford: There are two aspects to that. One issue is the uncertainty that is caused by

the current situation. For example, the currency debate is causing many of our employees difficulty. They are asking, "What are we going to be paid in? How are we going to trade? Are we going to have less or more taxation?" A number of issues have been raised.

Secondly, our employees are concerned that if, following the referendum in September, we go into an independence situation, the rest of the UK and the rest of the world will see Scotland as a small entity and their job prospects will be constrained, particularly if the currency situation is that they are no longer dealing in pounds. When we speak to our employees informally, they indicate that they are worried about mortgages, levels of taxation and the general uncertainty. We are all scratching our heads and saying, "Why on earth do we need this? What do we expect to gain from independence?" That is the current situation—it may, of course, improve, but at present those are their worries.

Dennis Robertson (Aberdeenshire West) (SNP): Good morning, gentlemen. I will direct my question first to Mr Kilgour, and the other panel members can come in afterwards. What impact would it have on your business if the UK left Europe?

Robert Kilgour: As I said, my main business at the moment, Renaissance Care, is totally focused in Scotland. It employs 100 per cent of its employees in Scotland and operates purely and simply in Scotland. I suppose that, if there were a no vote in the referendum and then the UK left the EU, the only impact would be in the area of regulation, as a number of EU regulations affect our business.

There are big differences between Scotland and England in care of the elderly. For example, there is free personal care in Scotland and, at the moment, although the situation is likely to change, the Convention of Scottish Local Authorities is the one point of negotiation for care homes in Scotland, which is different from the situation in England. I feel that Scotland is currently a good climate for the care home sector.

Dennis Robertson: Please stick to the question about the impact on your business.

Robert Kilgour: Other than in relation to certain regulations that affect our business, I do not foresee any impact if the UK leaves the EU.

Dennis Robertson: Mr Soames, you are a big fan of Europe.

Rupert Soames: I am a big fan of everything.

Dennis Robertson: Great. That is fantastic. Does that include independence?

Rupert Soames: There can always be areas for improvement.

If I can just say, constitutional crises—

Dennis Robertson: I want to stick to a business perspective rather than move on to a political one.

Rupert Soames: Constitutional crises are like trams on Princes Street—you wait 500 years and then two come along together. The combination of Scotland negotiating separation from the rest of the UK and the UK negotiating its terms is a potential constitutional car crash.

Dennis Robertson: The question was on the impact of Europe on your business.

Rupert Soames: The combination that I have outlined would not be helpful at all.

The EU is very important to our business. It negotiates the trading agreements under which we export and get trade protection across the 100 countries in which we do business. We need to be under the coat tails of a big trading bloc to be able to make deals, to get support and to be able to negotiate major trading arrangements. If we step back from that and ask, "Would it matter if the UK left the EU?"—

Dennis Robertson: That was the question.

Rupert Soames: Personally, I think that that would be highly damaging to business, but at least one imagines that the UK is a big enough trading entity to be able to cut its own deals in the wider world. I would have grave reservations about Scotland being able to negotiate with China and India.

09:45

Dennis Robertson: We make a good job of that at the moment, as is shown by the amount of business that is coming into Scotland—we have had record success.

Norman Springford: As a hospitality sector representative, I do not think that leaving Europe would make a great deal of difference to us. That is mainly because 80 per cent of our business is from the UK domestic market. Whether we are in a UK that is in the eurozone is of no consequence to us.

Dennis Robertson: Mr Springford, you took great pains to go on about the currency in answering a question from the convener. You will be aware of the fiscal commission working group's report. Which currency option would you, as businesspeople, prefer if there was a yes vote?

Norman Springford: I hope that I will not be tested on the options. From looking at the issues, I see the danger that, if Scotland is denied the pound, as the stated case seems to be—

Dennis Robertson: Let us forget the politics for a second. What is your preferred option as a businessman?

Norman Springford: I do not see any option as being good.

Dennis Robertson: Would you not prefer to keep sterling?

Norman Springford: Not keep sterling? No. The risks—

Dennis Robertson: Are you saying that you would not want to keep sterling if there was a yes vote?

Norman Springford: If there was a yes vote, I would wish to keep sterling, but I would not wish to keep it if the rest of the UK decided that keeping sterling was not an option for Scotland. I would not like the alternatives.

Rupert Soames: If the Scottish people voted for independence, I would prefer an independent currency. If they have said that they want all the benefits that independence can bring by way of freedom of manoeuvre and the ability to set their own policies, the only option that will allow an independent Scotland the freedom to plough its own road and set its own tax and fiscal policies will be our own currency.

Dennis Robertson: Is that your business preference?

Rupert Soames: It is not my business preference.

Dennis Robertson: That is what I asked about. If there was a yes vote, what would be your business preference?

Rupert Soames: Some form of alignment with sterling would be preferable, but not necessary. The worst possible outcome would be an unstable currency union. The second worst would be what might be called the Panama option. The least bad outcome would be an independent currency.

Dennis Robertson: You are getting me slightly confused. I asked for your perspective on the best option for your business and I was looking for a direct answer to that question.

Robert Kilgour: For my business interests, the best option would without any doubt be sterling, whether in a formal currency union or under the second option to which Rupert Soames referred.

Dennis Robertson: That is excellent—thank you.

The Convener: Lots of members are desperate to ask questions. Margaret McDougall is first.

Margaret McDougall (West Scotland) (Lab): Good morning, gentlemen. We have heard that

the option of continuing as part of a currency union would not be available, and we have not heard of a plan B that would be followed if we became independent. You have intimated your thoughts on your preferences.

If Scotland did not have the pound as part of a currency union, there would be transaction costs. What would be the transaction costs for your business if we were in an independent Scotland that had a completely independent currency or where there was sterlingisation?

Rupert Soames: I am delighted that you have raised the issue of transaction costs because currency is probably the very least of the transaction costs in our business. We might well come on to discuss the complexities of the border issue.

Given that we manufacture all our output in Dumbarton, in the event of Scotland's having an independent currency everything that we bought and sold would have a currency risk in that it would be linked to a currency with a very significant weighting towards the fortunes of North Sea oil—in other words, a petrocurrency. Could we hedge that? Yes. After all, we hedge currencies all the time. I cannot tell you precisely what that might do to our costs, but my best guess is that it might cost us 2 or 3 per cent of our manufacturing costs, which run to about £400 million a year. I must point out that that is not a scientific number. Of course, if we were in a sterling area, we would not have those costs.

Margaret McDougall: Will any of this make any difference to the businesses that Mr Springford and Mr Kilgour run?

Robert Kilgour: If there were no official sterling currency union, or a looser arrangement, and if we had only the Scottish pound standing on its own, the biggest impact for our business, all of which is done within the confines of Scotland, would be on the cost of finance. If having a different currency impacted on the cost of finance for our business, that might affect our investment decisions and the creation of more jobs. On the other hand, if we remained in the same currency area as at present there would be no impact on our business because, although we have had care homes throughout the UK in the past, we do not have any in the rest of the UK at the moment.

Norman Springford: In our business, there are several levels of what might be described as transactional costs. At the simplest level, there would be precious little effect on our business dealings with our customers and guests, given that we already operate in a multicurrency situation. There would be administrative costs in dealing with employees in different parts of the UK, but the most important aspect would be—as Robert

Kilgour has suggested—the effect of having a separate currency on how we are viewed by the rest of the UK and, indeed, the world. How would we protect against currency fluctuations and risk? Would that risk lead to greater interest charges? Those transactional costs are difficult to quantify but are of more concern to us than, say, the basic transactional administration costs.

Margaret McDougall: Let us go back to what Mr Springford and Mr Soames—it might have been Mr Kilgour—said about the effect of risk on business costs, the cost of financing for those who are looking to borrow and your companies' future investment. Will all of that be riskier if we are outside sterling?

Norman Springford: No matter whether what we have is called sterling, if our currency is seen to be different from the UK's currency that will be a high risk to us.

Robert Kilgour: I would say the same thing. Borrowing costs are a hindrance. For the past few years—indeed, even now—the biggest problem in all the small to medium-sized enterprises that I own or that I am involved with has been access to finance and bank lending. My fear is that the situation would be even worse if there were a plan B for a stand-alone Scottish pound.

The Convener: I want to stick with the currency issue because I know that a couple of members wish to ask follow-up questions.

Mike MacKenzie (Highlands and Islands) (SNP): Have any of you gentlemen read the fiscal commission working group's first report, which deals with currency issues? The gentlemen who wrote the report have impeccable credentials; they include a couple of Nobel prize winning economists. In that report, they say that they expect the politicians to do a lot of posturing while the campaign is on, and after the vote they will become much more sensible. From your business perspectives, and if we assume that the people of Scotland express their democratic wish in a yes vote, do you agree that it would behove the politicians in Scotland and at Westminster to adopt a sensible approach to currency and, indeed, to any other administrative arrangements?

Robert Kilgour: I think that it would, but—

Mike MacKenzie: Thank you. That is all that I need. [*Laughter.*]

The Convener: You may carry on, Mr Kilgour.

Robert Kilgour: As I said, I think that it would behove the politicians to adopt a sensible approach. However, the fact is that the politicians have made their position very clear. I am just a simple businessman—not a politician—but the categorical statement that a currency union is not an option and the fact that, at the moment, there is

no plan B are matters of concern not just for me but for the sources of investment in London and abroad that I speak to regularly and look to for finance for projects in Scotland. That uncertainty gives them a lot of concern and, as a result, a few projects that I have been looking at have been put on hold for the time being.

Mike MacKenzie: Thank you. I am interested to hear whether Mr Soames thinks that politicians will be sensible.

Rupert Soames: What is sensible is in the eye of the beholder and will differ according to from where people are coming at the subject. The Scottish people might think it sensible to have a currency union, but the 55 million other people in the rest of the UK might not think it sensible to take on a risk—

Mike MacKenzie: With the greatest respect—

Rupert Soames: Please let me finish. You asked me a question, and I am going to answer it.

You asked whether everyone will be sensible about the matter. I am sure that everyone will try to be, but it is far from clear to me why it would be sensible for the rest of the UK to enter a currency union with Scotland without Scotland's being tied up tighter than a kipper with regard to its fiscal and tax responsibilities. You have to ask, "Well, why should they think it sensible?" If you want my opinion, I have to say that part of my assessment of the risk in all this is that the rest of the UK will be absolutely serious in saying that it will not want or have a currency union.

To those who think that this is just "bluff" and "bluster", I have to say that the Treasury is absolutely serious about this. After all, it has the example of what has been going on in the EU to show what happens with unstable currency unions.

Mike MacKenzie: So you feel that, in the event of a yes vote, it would have no detrimental effect on your business, located as it is in Scotland, if the politicians at Westminster were to continue to posture as they are at the moment.

Rupert Soames: There are a number of ways in which Scotland's separation from the UK and its becoming independent would damage our business. The currency issue is just one of them.

Mike MacKenzie: Thank you.

Norman Springford: If I were in the habit of guessing or gambling, I would answer that in an independent Scotland we will retain sterling, but plan B will become the second—and in my view less-favoured—option. In other words, we will inherit and use sterling as our currency but without the associated support from the rest of the UK. I agree that it could become an unstable currency.

10:00

Alison Johnstone (Lothian) (Green): Mr Kilgour—thank you for your submission. I entirely agree with you that the present situation can be improved, but even with devolution we are one of the richest nations in the world, yet one of the most unequal. That is part of the reason why we have a great desire for independence among a large proportion of the Scottish population.

You say that you believe that the UK's diversity is its greatest strength, not its greatest weakness. Unfortunately, that view is not shared by a certain right-wing fringe party that seems to be dictating a lot of Government policy at the moment. Do you feel that UK immigration policy is flexible enough to allow us to meet Scottish needs? We are already hearing about instances in medicine, for example, where we do not have the specialist doctors that we need.

Robert Kilgour: Recruitment is a problem. The area where I have the biggest recruitment problem at the moment is—surprise, surprise—Aberdeen. For anyone who is recruiting in Aberdeen who is not involved in oil and gas, it can be difficult; it is not a problem only in my sector. We are actively recruiting people from the north-east of England to come up to Scotland. We have had some success with that and are considering expanding that effort.

As I have said, my view is that devolution is ever evolving, and I do not believe that it should stop at the Scotland Act 2012, and those changes are coming in in 2016. I am a firm believer in more fiscal powers for the Scottish Parliament and I would like it to be responsible for up to 50 per cent of its budget. I believe that it is responsible for about 15 per cent just now.

As far as UK immigration policy is concerned, we recruit mainly from Scotland, and from England. We have people who work for us who come from abroad, but we have not as yet actively gone recruiting elsewhere in the EU or further afield. However, with staff shortages in certain areas, we have been discussing the possibility of doing that later this year.

Rupert Soames: We do not have a recruitment problem in Scotland. We take on about 16 apprentices a year and we choose from a list of 500 applicants, so we are spoilt for choice. That is one of the reasons why we like being here. We also take quite a lot of Scots from Scotland to go and work in Côte d'Ivoire, Yemen and other countries, so there is free flow. We have a recruitment issue in the south and around Aberdeen, where it can be difficult. We do not see UK-wide immigration policy as applied in Scotland as being a big impediment to our business, although I know that other businesses have concerns about it.

Norman Springford: I took Ms Johnstone's question to be about whether we would like more devolved powers, rather than about how we are dealing with recruitment.

Alison Johnstone: It was also about whether there is an immigration policy that is able to reflect particular needs in Scotland.

Norman Springford: As I said many months ago at another evidence session, Scottish and UK youngsters are not as interested in hospitality as they are in some other trades, so many of our employees—not the majority, but a large number—are from EU countries, especially eastern European countries. It is unfortunate that I have to say this, but their work ethic is much better than that of employees from Scotland or the rest of the UK.

In terms of immigration policy, we would continue what we are currently doing. We will recruit from throughout Europe—or from the rest of the world, for that matter.

Alison Johnstone: Perhaps that is something that we could look at under our tourism brief, convener.

Marco Biagi (Edinburgh Central) (SNP): I would like to follow up on the remarks that were made by Mr Kilgour. You said that you support additional fiscal powers. Why, and what benefits do you think such powers would have?

Robert Kilgour: As I have stated both in writing and verbally, I am in favour of Scotland remaining part of the UK, but I am also in favour of devolution as an evolving process. I believed in that at the time of devolution. Through the Scotland Act 2012, there will be changes in 2016, but I do not believe that that should be the end of it; more fiscal powers should be devolved to Scotland. At present the Scottish Parliament is responsible for raising about 15 per cent of the £35 billion budget. I have done a fair amount of reading on that lately, so I would be in favour of responsibility for raising 50 per cent of that, as well as other powers—not just fiscal powers—coming to Scotland, because I believe in further evolution of the devolution settlement.

By far the best approach for business, for jobs and for Scotland is for Scotland to have more responsibility, particularly fiscal responsibility, but to remain part of the UK. Many members disagree, but I believe that we can have our cake and eat it in that respect. That is the best—

Marco Biagi: I am trying to understand why you want to move from 15 per cent up to 50 per cent. What would that deliver, in your mind?

Robert Kilgour: It would deliver a more settled view. Scotland and the Scottish people would, I hope, be happier to remain within the United

Kingdom if they had more say in how the money is spent, so they would not go down the route of wanting to be independent.

From my point of view, it all comes down to what is best for attracting investment and for stability and certainty. For the Scottish Parliament to have more fiscal powers would make for more stability and certainty, which would allow me to attract more investment and to create more jobs.

Chic Brodie (South Scotland) (SNP): Good morning, gentlemen. I will direct my first question to Mr Soames. Your much-respected grandfather said that, as much as the Greeks developed the ancient world, so Scotland forged a large part of the modern world through innovation and entrepreneurship. In that context, I note that, in a statement in December, you said that your company is

“used to dealing with political risk”

in the likes of

“Yemen and Iraq”.

You went on to say:

“I’m not saying the UK is on that scale. But you would be really surprised to know that the UK market for many international investors is in the high-risk category of political risk to investment. That is not where you would expect Britain to be.”

Why do you feel that, and what is the evidence for it?

Rupert Soames: That was specifically in relation to energy and energy investment. If I may say so, the evidence exists and I have been singing this song for three or four years now. Because of the confusions and difficulties of creating a new energy policy, inadequate numbers of new power stations are being built and the old ones are being mothballed or taken out of service, so we are going to face a severe problem over the next 24 months—and probably the next five years—with energy.

Part of that political risk calculation is not to do with Scottish independence, although there are significant energy issues around that, but to do with whether people are going to be prepared to fund the building of new power stations throughout the UK, given the uncertain regulatory environment.

Chic Brodie: Thank you. A question was asked earlier about Europe. We have a scenario in which Scotland has a trade surplus whereas the UK has had a huge trade deficit for some time. Scotland’s fiscal deficit is much lower as a percentage of gross domestic product than that of the rest of the UK, and borrowing per head is much less in Scotland than in the rest of the UK. I could go on.

I have two questions. First, I will not go into the currency situation, but do you agree that Scotland is in a superior economic position to the rest of the UK, which might have had an impact on the decision on currency by the Westminster Government?

Secondly, I will ask you a very direct question. What scares you more—coming out of Europe, or Scottish independence?

The Convener: Who would like to answer that?

Chic Brodie: I ask Mr Soames initially, and I am sure that Mr Kilgour will want to answer.

Rupert Soames: I do not think that the second question is answerable, because they are two completely different issues. It is a very clever question, but I do not want to compare two different threats. It is like asking, “Which scares you more: the crocodile or the orangutan?” Well, they could both do you great harm, and I do not know which one scares me more. Furthermore, I would not use the word “scare”. As human beings do, we would adapt to circumstances, but both present severe risks to our business.

Robert Kilgour: Certainly, the more immediate of the two—the one that we are dealing with at the moment—concerns me the most, because it is there and on the table and the referendum is happening in September. A referendum on the EU might not happen. As I understand it, it is not in law that it will definitely happen in 2017.

Chic Brodie: We are going to have two referendums.

Robert Kilgour: That depends mainly on the Westminster election in 2015. Certainly, Scotland leaving the UK concerns me the most, because it is the more immediate issue and it actually could happen, whereas leaving the EU is not currently on the table.

Norman Springford: It follows from the earlier statement that I made that it probably makes little difference to us in the hospitality trade whether or not we are part of the EU. As I said, 80 per cent of our market is the UK domestic market. The reasonably simple answer is that independence would scare us.

Chic Brodie: I have two brief questions, convener.

The Convener: Have one—you have had two already.

Chic Brodie: Right.

Mr Kilgour’s written submission states:

“I really feel, and in fact I have already found recently, that the threat of independence is a direct negative barrier to attracting investment and jobs into Scotland.”

Scotland has the highest rate of inward investment of all the regions. Where is your evidence?

Robert Kilgour: I cannot mention names directly, because of commercial confidentiality, but my evidence is that, in the sectors that I am involved in, particularly the care home sector, when I have been trying to attract investment from London and abroad from healthcare investment—

Chic Brodie: Your submission does not say that; it says—

Robert Kilgour: It does—it says that the “threat of independence is a direct ... barrier”.

In the past couple of years, I have found that healthcare investment funds in London and abroad that I have used over the past 25 years have told me that, because of the uncertainty over independence, the referendum and the currency, they are not prepared to do any projects. They are people who have done projects in Scotland in the past 25 years. They are not saying that they will not do projects post the referendum, whatever happens and whether it is a yes or no. However, for the past couple of years, they have been saying that, until there is certainty and they see what happens post September’s referendum, they are not prepared to invest in projects that I have taken to them.

Chic Brodie: You are talking from personal experience.

Robert Kilgour: Yes—totally.

Chic Brodie: So what you said was not a general statement. You accept that Scotland has seen much higher inward investment than other regions of the UK.

Robert Kilgour: As I said in my statement, it is about what

“I have already found recently”.

Rupert Soames: We have to be realistic about the issue. Until recently, the international capital markets paid no attention at all to Scottish independence. In the past six months, we have noted a marked increase in nervousness among investors and in the questions that we are getting from them. That is partly to do with the polls.

10:15

Most international investors have assumed that independence will not happen. Now that the polls are getting closer, however, they are getting much more worried. My prediction to you is that, in the annual report season, which is beginning now, many more public companies that are based in Scotland will be citing Scottish independence as a risk that they have to account for in their business. We are being asked about it by our shareholders

much more regularly; they are much more worried about it now than they were two or three years ago.

I do not think that you should comfort yourselves that, just because investment has been very strong until recently, there is no change of atmosphere now. People in the international capital markets are much more worried about independence than they were.

Chic Brodie: What were your results? Was it £360 million profit before tax? If corporation tax were lower here, would your shareholders still be nervous? Would they not want the £10.8 million additional income that would flow from reduced corporation tax?

Rupert Soames: I think that my shareholders would be sceptical about the ability to make major cuts in corporation tax without there being increases elsewhere. What the Lord giveth the Lord taketh away. We all know that the budget of an independent Scotland is not going to be so much in surplus that the Government is going to be able to cut taxes in one area while not increasing them in the other. I find it profoundly unlikely, however, that a politically independent Scotland is going to say, “Look at that nice Mr Soames. Let’s go and give all those companies a nice big tax cut, because then we can go and raise taxes on the poor and the needy.” As my grandfather once said, “Yes, I don’t think.”

The Convener: We need to move on. Jenny Marra is next.

Jenny Marra (North East Scotland) (Lab): Can I have three questions as well? Is that okay?

The Convener: If you are very brief.

Jenny Marra: I will be brief.

The panel has just started to talk about the first question that I wanted to ask, which was on the statement in Mr Kilgour’s submission regarding “the threat of independence”. When I speak to people in business, they tell me that the uncertainty is having an impact on business and is precluding land and agricultural transactions in Scotland. You said that you feel that the uncertainty is having an impact on your own business, Mr Kilgour. Do you feel that it is having an impact on the wider business community? Have you heard such stories?

Robert Kilgour: It is certainly having an impact on some investment decisions. I have put off a couple of investment decisions in my own company until after the referendum. Both family members of mine and a wider circle of business acquaintances with businesses in Scotland are finding similar things, notwithstanding the point that Mr Brodie makes about the increased level of inward investment in recent years.

I agree totally with Rupert Soames. In the past six months, as the polls have narrowed, there has been much more nervousness. As I said, I have put off a couple of decisions, and I know of some people who have done the same—they say that they will revisit their project at the end of this year or the beginning of next year. That has happened more often in the past six months.

As I said in my submission, it is not the Government's job, in the current economic climate, to create jobs; that is the role of people such as those of us here. However, we need a climate of certainty and stability to allow us to attract investors. We create the jobs that raise the taxes that allow you guys to decide where to spend the money on essential public services. The issue is becoming more of a concern.

Jenny Marra: Can you estimate how much of an impact the couple of delayed decisions that you mention is having on investment in the Scottish economy, and how much of an impact it is having on the number of jobs that you can create?

Robert Kilgour: The projects, which would involve short-term construction work, would employ perhaps 80 or 90 people once they were completed. Then there are the goods and services that would be bought locally once the units were up and running.

I am a glass-half-full person, and I am hopeful and confident that the projects are only delayed. They are not not going to happen. They are going to happen but, for a variety of reasons—mainly the uncertainty and the concern that we have talked about—we have decided to consolidate, look after and run efficiently what we have just now. Those two folders are there, oven-ready, with the finance issue being the only one that needs to be completed.

Jenny Marra: My next question is a supplementary question to my first one, convener.

The Convener: No, no, no. Come on. You get three questions, and you are now on your third question.

Jenny Marra: If there were to be a yes vote in September, would that period of uncertainty continue because we would then go into a year and a half of negotiations on the currency, EU membership and all of that? Does a yes vote mean continued uncertainty?

Robert Kilgour: A yes vote means continued uncertainty until March 2016, which I think is the SNP's stated preferred date for independence. Obviously, a lot of hard negotiation would need to be done during that time, and the period of uncertainty would definitely continue. In fact, someone whom I deal with regularly in London told me that even a close no vote would leave

them concerned. They are looking at a 25-year to 30-year investment in Scotland, and they think that a close vote might mean another referendum in five years' time. I said that once the question is settled and there is a no vote, we can get on with those projects, but they said, "Not necessarily."

Jenny Marra: So the whole process of the referendum is creating an uncertainty that your business does not need.

Robert Kilgour: It does not need it. We are managing and coping—we all are. Because we are in business, we cope with the ups and downs, but we could well do without that uncertainty.

Jenny Marra: How attractive—

The Convener: Hold on, Ms Marra. You have had four questions, and other members have not had any. If there is time at the end, I will bring you back in.

Christian Allard (North East Scotland) (SNP): I thank the panel members for coming to answer our questions. It is very much appreciated, because we need to hear from businesspeople such as yourselves to know what decision we should take in September.

I have been quite impressed with Mr Kilgour's answers so far, particularly on more fiscal powers and other powers—in relation to migration, for example—coming to the Scottish Parliament.

I would like to ask Mr Springford about one particular aspect of those powers. I do not know whether you support the Scottish Parliament getting more powers, but a lot of Scotland-based businesses want the Scottish Parliament to have more powers in relation to air passenger duty. What do you think the response would be after a no vote, given that we know perfectly well that we have been asking for such powers for years but nothing has come from Westminster? Do you think that the Westminster Government would listen?

Norman Springford: I am not particularly concerned—I will rephrase that: I am not particularly interested in more powers being devolved to Scotland. I am perfectly happy with the union and the way that the system works.

To answer your specific question about air passenger duty, that should still be a matter for the UK. London is the gateway for British tourism, and Edinburgh is the gateway for Scotland, so air passenger duty clearly affects the whole country. I am quite happy that it should be a matter for the UK.

Christian Allard: So you are happy with the—

Norman Springford: I am happy with the current system. I am not happy with the rate of tax, or air passenger duty, but I am happy for it to be controlled by the UK Government.

Christian Allard: That is the point—and the same thing applies to migration, fiscal powers and everything else. We have been asking for many years for those things to change in the interests of businesses such as yours, so what hope do we have of changing Westminster's point of view?

Norman Springford: I really do not see that that is an independence type of question. I see it as a matter for the UK.

Christian Allard: So after a no vote, the Scottish Parliament should keep asking—

Norman Springford: It should keep asking for a number of things. The British Hospitality Association, which we are members of, is asking for many things. We are looking to revise VAT, for example. There are a number of issues, and reducing air passenger duty is certainly something that would improve tourism.

Christian Allard: I can relate to that. A lot of us have been asking for a change to the VAT rate for the tourism industry too, but it does not seem to go anywhere—just like migration.

Norman Springford: As we have said before, it is necessary to balance the books. I do not know whether I would as far as saying that the Lord giveth and the Lord taketh away, but we are hearing promises of reduced taxation and better services, and, at the end of the day, I must ask how you balance the books to achieve that objective.

Christian Allard: What about Mr Kilgour? Should more powers be devolved to the Scottish Parliament?

Robert Kilgour: I am not involved in the better together campaign, although I recently gave it a small cheque. My firm view—I told the campaign this when I gave it that small cheque—is that the three main parties need to come up with a written response to the Scottish National Party's white paper. I firmly believe that they should put down in writing more positive reasons for the Scottish public to vote no—that there will be no cuts to the Barnett formula, for example. The three main party leaders in London should agree those and sign up to them. Any such response should remind people what powers the Scottish Parliament has and what powers it will get in 2016 under the Scotland Act 2012, given that most members of the public have no idea that more powers are coming in 2016. The three parties need to say what a no vote will mean in relation to more powers. I have been campaigning for a written response to the white paper—I would be very much in favour of that.

Christian Allard: That is interesting, given that you contributed to the better together campaign. Have any of the witnesses been asked to contribute to something similar to the white

paper—I do not know whether I would call it a black paper—on the no side? A lot of businesses had an input in the white paper in relation to the direction in which Scotland will go following a yes vote. Have you been asked to contribute to a document for better together?

Robert Kilgour: I have not. When I gave it a small cheque, I said that I might consider giving it a little bit more if it said to me that it was putting together a fund for the production of a document.

Christian Allard: Did you get an answer?

Robert Kilgour: I have not had a response to that as of today.

The Convener: I will let the others answer, but we need to move on.

Rupert Soames: I have fairly strong views about the separation of Crown, state and business. It is fine for business to opine about something as radical as independence. There is all the difference in the world between independence on the one hand and further devolution on the other.

We have no particular view on further devolution, and we would not express a view on that in the way that we would express a view on independence, because the risk that one poses to our businesses against the other is—

Christian Allard: Have you been asked by the better together campaign to contribute to and articulate your thoughts in a document that would be similar to the white paper?

Rupert Soames: No, I have not.

Christian Allard: Would you like to contribute to such a document? It is a genuine question.

Rupert Soames: I do not believe that businessmen should campaign on the referendum. I believe that businessmen should answer the questions that they are asked.

Christian Allard: Having an input—

The Convener: Okay, Mr Allard, you have had your time. Mr Springford, you can answer the question and then we need to move on.

Norman Springford: I have been asked to contribute but I have not contributed. We do not make political donations as a company. That is our policy.

Christian Allard: What about—

The Convener: Okay. Thank you, Mr Allard. We will move on.

10:30

Marco Biagi: Have successive UK Governments done enough to promote female

participation in business at start-up level and in the higher echelons? Do you support the Scottish Government's emphasis on the issue? Its policy can be delivered only with independence.

Norman Springford: I do not see gender equality as Scotland's preserve; it is a main plank of UK policy, as far as I can see. We are a family company and—I get into trouble with the human resources department for saying this—on our eight-person board we have four accountants and four women, so God help us. On a more serious note, I do not think that Scottish independence is an issue in relation to improving female participation.

Rupert Soames: This is an incredibly good example of how complexity in cost will come in. We are a UK-listed company, with headquarters in Scotland. Mr Biagi suggests that under independence there would be more women on boards and in the workplace. I presume that the rest of the UK would have a policy, too, so there would be two separate policies where now there is one.

If Scotland becomes independent, Scotland will want to do things differently—otherwise, what is the point of being independent? To us, as a company that runs across the UK in a completely integrated way, that will bring in another raft of regulations and legislation with which we will have to comply. Diversity legislation is just one example.

Marco Biagi: Neither of you gave your view on the UK Government's record on female participation. I would be grateful if you would address that.

Robert Kilgour: On our board we have two men and two women, and more than 50 per cent—probably nearer to 70 per cent—of our senior managers, on the rung below the board, are women. That might be because we are in a nursing-based sector, although we also have men on that rung of senior management. In the 25 years in which I have been involved in the care sector, I have had boards where the majority of members were women. I find that I have let far more men than women go for not being up to the job in senior positions.

Marco Biagi: Why is it that only 20 per cent of board appointees in FTSE 100 companies are women? That seems a small proportion.

Robert Kilgour: It does. My wife is campaigning on the issue in London in her sector, which is the financial services sector. She is having some success, although not in some areas.

I can speak only for the sector in which I am involved, which I think, perhaps because of its nature, has a higher percentage than the UK

figure—whatever might be brought in in an independent Scotland.

The Convener: We have time for two brief supplementaries.

Mike MacKenzie: My question is for Mr Soames. You seem to be strongly pro-Europe, and I heartily concur with your view in that regard. Do you think that having your company headquarters in Scotland is a kind of insurance policy against the rest of the UK pulling out of Europe?

The Convener: Hold that thought. I will let Jenny Marra ask her question before I come back to the panel.

Jenny Marra: Last week, TSB made the decision to incorporate down south rather than in Scotland. If the panel were incorporating tomorrow, would you rather do so in the rest of the UK, or would you be attracted by the SNP's promise of a corporation tax cut under independence?

Rupert Soames: On the EU issue, we would wait to see what happened. I do not regard having our headquarters in Scotland as an insurance policy against the rest of the UK pulling out of the EU; frankly, headquarters can move very quickly. However, again, I think that it ill behoves people not to listen quite carefully to what senior EU people say and to what senior Treasury people say, both about the currency and about EU membership.

On the TSB, I am not a banker so I cannot talk for banks. My prediction would be that, in the case of independence, banks would have to move their domicile down to London very rapidly. Banks will have to speak for themselves but I think that they would need the protection of the Bank of England as the lender of last resort very quickly—otherwise, their investors would be asking questions of them.

In the case of a company such as ours, we want to be headquartered where our key people are and where our manufacturing is, so we are as happy as clams where we are. We took a decision to build a new factory in Dumbarton five years ago and we will stay there. I do not think that where a company is headquartered is such a big issue because, if it wanted to, it could move its headquarters in six months. As I say, we are as happy as clams where we are.

Robert Kilgour: I have set up companies in Scotland and in England—it is about where they operate, not necessarily anything else. My biggest concern would be about banks such as the Royal Bank of Scotland moving their headquarters to London and the impact of such moves on access to and the cost of investment. That would concern

me for the reasons that Rupert Soames mentioned.

I certainly agree with Rupert about different rates of corporation tax. The offer of a lower rate of corporation tax as a sort of sexy titbit really does not do it for me because I do not see how it would stack up across the piece. What concerns me is the whole tax burden in an independent Scotland, as opposed to the fact that one tax—the corporation tax—would be lower by a couple of points. I am concerned about the other taxes—business rates, income tax, VAT and everything else. My view is that there would be a bigger spread of taxes, and I am concerned about the effect of that on investment and jobs.

Norman Springford: I can give a clear message on this point. We are a Scottish family company. We started in Scotland, we invest in Scotland and of course we will continue to invest in Scotland. However, as a board we have made the decision that we will, over the next several years, focus our capital investment programme in London in particular. That is a disturbing message, because if that is what a very patriotic Scottish company is prepared to do, what are others planning?

We will not relocate. That is not in our plans at all. However, if our message is that we, as a Scottish family company, currently consider England to be a better place to invest in than Scotland because there is less risk should independence occur, that may mean that others from outside Scotland who invest in Scotland could make similar decisions. That is a concern to us.

The Convener: I am afraid that the clock has caught up with us and we need to call it a day. Thank you very much, gentlemen, for coming in. It has been very helpful to the committee in our deliberations. We will have a short suspension to allow a changeover of witnesses.

10:39

Meeting suspended.

10:43

On resuming—

The Convener: I welcome our second panel: Dan Macdonald, chief executive of Macdonald Estates; Gordon MacIntyre-Kemp, chief executive of Business for Scotland; Jim McColl, the founder, chairman and chief executive of Clyde Blowers Capital; and Marie Macklin, chief executive of the Klin Group.

I remind colleagues that we are short on time this morning so questions should be short and to

the point. We have quite a large panel so, rather than have everybody try to answer every question, I ask members to direct their questions to particular panel members. If any of the witnesses wants to respond to a question that was addressed to somebody else, they should catch my eye and I will bring them in as time allows. It would be helpful if witnesses could keep responses as short as possible to allow us to get through the topics in the time that we have available.

I will start with a question for all the witnesses; we can start with an answer from Dan Macdonald and work our way round. Scotland is currently doing well, and the Scottish economy is the most successful part of the UK economy outside London and the south east. Why, if we are doing so well, do we need to be independent?

Dan Macdonald: The world is changing at an unprecedented rate, and we must become much more aware than we currently are of our place in the context of the globe rather than the British isles. The changes are unprecedented, and we have to plan a way forward. As the convener says, Scotland is a wealthy country.

10:45

I do not see the point that the witnesses on the previous panel were making. The idea was expressed that, under independence, everybody would go to London. London has a population of 8.5 million, I think, and it is growing very substantially. The cost of property down there is three times what it is here, and it is rising daily. I am afraid that I would take issue with those who claim that they would base themselves in London. London is not everything—it is partly the London-centric economic problem that drives me.

We benchmark ourselves against the rest of the UK. It is far better that we take a global view and start to benchmark ourselves against other economies in the world. We will then find where we really sit.

I believe that, in a smaller community, we will get there faster. We will be able to streamline what we can do. I believe that the only way forward is to have a far more collaborative society in which business, the community, the public sector, the Government and the third sector—whoever—can work together. We should get rid of those silos, and we can do, as is evident from the very fact that I am sitting here today, in the Government, which is a first for me.

The Convener: Sadly, this is not the Government—this is just the Parliament.

Dan Macdonald: Okay—I take your point.

We have the potential—and we do not realise the depth of potential that we have—to apply ourselves to export-related growth, the figures for which we have all looked at.

Gordon MacIntyre-Kemp (Business for Scotland): I welcome your comments on Scotland's success. We are a wealthy nation, but we are not a wealthy society, because the wealth that we create does not necessarily stay here and is not necessarily reinvested in Scotland. For quite a few years now, Scotland's economic growth has trailed behind that of the rest of the UK.

Since devolution, with the gifting of some powers and some more authority to Scotland, there has been a change in Scotland's fortunes. I believe that, if a little power makes a small difference, a lot of power could make a big difference.

This is not so much about what I think as it is about what my members think. Business for Scotland now has 1,500 members, who are all business owners—entrepreneurs and directors of businesses—who operate in Scotland, and 100 per cent of our members are pro-independence. They have signed a declaration that says that we believe that Scotland becoming an independent country will give us the tools to create a better Scotland, which is more confident, international, entrepreneurial, successful and ambitious than the country that we have right now. There is a growing consensus within the small and medium-sized enterprise sector of the business community that we represent that says that independence is more of an opportunity.

The main thrust of Business for Scotland's written evidence and of what I will be talking about today is that Scotland can, given that it is a wealthy nation—and if we keep the money in Scotland—easily afford to be an independent nation. Our economic growth has been held back by our having to pay £64 billion to service the UK's debt. If we take that £64 billion over the past 32 years out of our accounts, Scotland would not be in deficit right now. Even accounting for all the things that the UK paid for—albeit we probably would not have had nuclear weapons—and leaving them in the accounts, we would have at least a £50 billion surplus right now. That research has been peer reviewed by other think tanks.

We believe that Scotland has been subsidising the UK, and the fact that we have not been reinvesting in Scotland means that our economic growth and the opportunities for our communities, families and businesses have been damaged. As a result, more and more businesses are swapping to supporting independence when they have the full facts, which most of them do not have yet.

Jim McColl (Clyde Blowers Capital): To begin with, I was not really pushing for independence; I was pushing for more powers for the Scottish Parliament, and more fiscal powers in particular. I cannot understand why anyone would not want that. When I was developing my career, I wanted to be in charge of a profit centre, not a cost centre. We would be more in control of our own destiny. I feel that we do not have the fiscal powers to make the best of economic growth in Scotland. In economic growth, we are way behind achieving our potential.

We have too high a level of joblessness. We need to create more jobs and create more private businesses. To do that, we need to attract private businesses here, which is what will create the wealth that will allow us to fund the social progress that we all want. We do not have the powers to attract businesses up here.

London is fantastic. It is a huge magnet. The money that is spent on infrastructure and the economic policies that are decided by Westminster are heavily weighted towards London, probably quite rightly. It is different if we go outside of London. This is not just a Scottish issue; it is for the regions of the UK.

We have an opportunity here to get more powers for the Parliament. It is being billed by the no voters as being about the SNP, but it is not an SNP issue; it is an issue about giving the Scottish Parliament more powers to decide its own destiny and to run the country in a way that suits Scotland more. The issues in Scotland are quite different from the issues facing London and the south-east. The Parliament needs those powers to address those issues.

The only way to get the additional powers that we need is to vote yes, because nothing has been put forward by the no campaign. It is just the status quo, and that does not hack it. Doing the same as we have done over the past 15 years for the next 15 years and thinking that we are going to get something different is delusional. Why any politician in the Scottish Parliament of any political persuasion would not want to have more control over what happens in their own nation beats me.

Marie Macklin (Klin Group): Thank you very much for allowing us to speak at your meeting today. I firmly believe that a yes vote is best for the people of Scotland and for Scotland's future. With my construction and development hat on, speaking about an area where there are 169,000 construction workers employed, I can say that if we had more full fiscal powers, we would be able to secure a better deal for the construction industry.

Speaking with my entrepreneurial hat on, and thinking of companies that I closely work with such

as Entrepreneurial Spark—or ESpark—which is involved in mentoring, I note that 98 per cent of businesses in Scotland are SMEs, which number about 340,000. I also note the limited measures that the Scottish Government has implemented, including the encouraging dynamic growth entrepreneurs fund—the EDGE fund—through Scottish Enterprise, which aspires to growth and lets small businesses grow, and I firmly believe that, with full fiscal powers, we could consider things such as VAT, airport passenger duty and aggregates tax—which should be devolved, although it is not devolved currently. I firmly believe that the best future for Scotland is with independent powers.

The Convener: I will ask a follow-up question before bringing in the deputy convener, picking up on what Dan Macdonald and Jim McColl said about the London-centric economy. That is a point that a number of people have made. If that is the case, why do you think that a currency union with the rest of the UK, which would mean a continuance of that model, is the preferred option? The rest of the UK—George Osborne, Ed Balls and Danny Alexander—have said that they do not support a currency union post-independence.

Let us say that there were a currency union. Would it not be the case, as Mark Carney said in his speech in Edinburgh three weeks ago, that that would require a substantial ceding of sovereignty? Is it conceivable that, if there was a currency union, the rest of the UK would be happy to allow the junior partner in that currency union to cut corporation tax in Scotland, for instance, and make it lower than in the rest of the UK? Surely that is not a model that will give us the fiscal freedom that both of you suggest you want.

Dan Macdonald: Cutting corporation tax is important to me, but as part of a national plan that includes a lot of other things, such as—as Jim McColl said—infrastructure.

I do not see what the problem is with the common currency. George Osborne's threat that we cannot have the pound is nonsense. Such a situation would not suit businesses in England any more than it would suit businesses in Scotland. I see it as a no-go area. No discussion is required on it, because the call for plan B is intended just to mess up what Alex Salmond said. I do not care what Alex Salmond says. I feel that Scotland will be a better place led by Scottish business in the collaborative way that I have talked about. I cannot say that the currency is a side issue, but I am quite confident that it is something that we can sort out.

The Convener: But what about the point that with a currency union very strict controls would be imposed on what Scotland can do?

Dan Macdonald: We can live with that, in the same way as we can live with many other things in a period of transition. Who knows what will happen in the future? If the Scottish economy thrives—as I envisage that it will do and as everyone would hope—maybe people south of the border will look at us as an example in leading the way forward. I do not see why that will not be the case.

Jim McColl: I do not see that there is a problem. Being in a currency union and being tied to the Bank of England would still give us plenty of fiscal freedom. I do not see why it would prevent us from flexing tax policies, because that goes beyond what the Bank of England would do. It would set interest rates and would maybe look at borrowing levels that we could not go above, but that would still give us plenty of freedom to have the flexibility to design fiscal policies that would stimulate business growth and attract businesses into Scotland. For me, it is a non-issue.

Gordon MacIntyre-Kemp: First, it is interesting that you asked whether, under an official currency union, the rest of the UK would be happy with Scotland varying corporation tax, because your question implies that the rest of the UK would not be very interested in having us vary corporation tax as part of the devolved settlement either. However, under the Scotland Act 2012 a lot of tax powers are moving to Scotland, or we are told that they are moving to Scotland—in fact, they would raise only 15 per cent of the total. There is a great deal of uncertainty about whether any more tax-varying powers will come to Scotland, because the unionist parties cannot agree on a statement on that.

On the question about sovereignty, if Scotland votes yes, we gain 100 per cent sovereignty. We can then decide to share powers with other nations through the EU and through agreements that are mutually beneficial, and we will always have the ability to change our mind at some point in the future. However, I do not necessarily envisage that in my lifetime the divergence between the Scottish economy and the economy in the rest of the UK would be so great that we would decide not to carry on with sterling. Sovereignty would be 100 per cent Scotland's and what we do with it afterwards would be our democratic choice.

Dennis Robertson: Mr McColl, you suggested that initially you were not going down the yes road. What convinced you to go down that road? Was there any truth in the rumours, which were maybe just speculation in the press, that Westminster or the better together campaign approached you—or, indeed, any of the witnesses—at any time to try to convince you that Scotland should remain part of the union?

Jim McColl: I have explained that I think that yes is the only way that you will get more powers in the Scottish Parliament. Nothing has been put forward that would give you more powers if there is a no vote. I think that we need more powers to be able to stimulate growth, stimulate growth in businesses, create more jobs and deal with poverty and welfare issues.

I was invited to Downing Street by the better together campaign to discuss the issues, and I made the same statement there—that saying, “Vote no and we’ll do something later,” is not going to fly. The answer that I got was, “You’re right. We’ll need to do something about that.” However, I have not seen anything being done about it.

The Convener: Has anyone else been approached by better together?

Dennis Robertson: It would appear not. They were going for you, Mr McColl.

When we spoke to the other panel, there was quite a lot of discussion about Europe, and I asked those witnesses what it would mean for their businesses if the UK were to leave Europe. In the event of a yes vote, do you believe that Scotland will be in a much stronger place as an independent country in Europe? If the rest of the UK were to leave Europe at a later date, would Scotland then be in a much stronger position without the UK?

11:00

Dan Macdonald: It is a difficult question. I feel strongly that we should remain part of Europe, and that is where my thought process stops. I do not think that Britain is doing the right thing in suggesting that departing from Europe might be good. It is more about consolidation of countries globally than about leading a broad economic forum such as that. I do not see a problem if Scotland stays in Europe and England departs; it would lead to the very difficulties that are being projected in arguments about currency and whatever other cross-border things there may be, but I do not see it as a big issue. It is sidetracking us from the main issue that we have to debate between now and September.

Dennis Robertson: Mr McColl, do you have a view on the Europe issue?

Jim McColl: What David Cameron has proposed is good. We need to negotiate a different stance with Europe in the UK, because too much is being decided by non-elected people in Brussels and that needs to change. I support that, but I also support staying in Europe. I have a number of businesses across Europe. It is a common market and European countries have no issues trading with one another and with the UK—

although there are different currencies in Europe and in the UK, that does not pose a problem for us—so I would support staying in.

Staying in Europe gives us a second bite at the cherry if something goes wrong. When the question goes to a referendum in the UK and the UK votes to leave, at least we have a chance, even if we have to negotiate to get in, although I do not think that negotiating to get back in would be as big a problem as is being portrayed in the press.

Dan Macdonald: Twenty years ago, when I went to Brussels a lot, I bumped into Irish people everywhere. There were no Scots attached to the EU, but all the Irish people were there with a brief to get as much money out of Europe as they could, get it back to Ireland and spend it on infrastructure. If you go to Ireland nowadays, you will see the quality of the infrastructure, and I am envious that we have nothing like it.

Marie Macklin: It is important to us in Scotland, and for my business, that we remain in the EU. I know from speaking to other businesspeople that there are concerns about the outcome of a potential referendum in the rest of the UK. We have heard the spin and I was pleased to see Bernard Ponsonby’s interview with the Prime Minister, in which the Prime Minister said that, if we were to become independent, he would absolutely back us in our application. The logic in the EU is that it is all about enlargement, not creating barriers. It seems to me that the Scottish people want to remain in the EU and are positive about the EU.

It is not in the EU’s interests to say no to Scotland, because we are a very wealthy country. There is a legal framework whereby Scotland can become a member after a referendum takes place and we become independent.

A lot of businesspeople and SMEs are concerned about the constant spin about the currency and the EU. It is about time that we started paying attention to what is in the white paper, which is an open book for the people of Scotland to review. Nothing is written in tablets of stone. It is for the business community and SMEs to discuss the issues. I am 100 per cent behind our remaining in the EU.

Gordon MacIntyre-Kemp: We have surveyed our members, and 99 per cent want to remain in the EU. Businesses generally are keen to stay in the EU.

There is a commitment from the Conservative Party to an in/out referendum on the EU if it wins the next election, which many commentators say looks more likely—I accept that some people disagree. In Scotland, a majority of people want to stay in the EU, but I have seen polls that show

that, in the UK as a whole, where we are massively outnumbered, there is a majority in favour of leaving the EU. There are no guarantees that we will stay in the EU if there is a no vote. Everyone must accept that. Therefore, there is a great deal of uncertainty about Scotland's continued EU membership should we vote no.

I do not think that we would necessarily be outside the EU having to reapply. I have looked at the issue, and I think that we would have to have a referendum if we were to leave. Opinions vary. The UK Government has the ability to ask for clarification; Scotland does not have that ability, because it is not the member. If the UK Government wants to clear up certain issues, as it has said in relation to currency, let it ask for an official ruling on Scotland's status, so that the Scottish people can go to the referendum with a clear answer.

Jenny Marra: We heard from witnesses on the previous panel that the referendum is causing uncertainty for their businesses and is having an impact on investment and jobs. Does that concern you, too, as businesspeople?

Dan Macdonald: I do not see it. I do not see all Scottish business; I have spent my life involved in commercial property development—offices, retail and industrial property.

Of course there is nervousness among people who get up in the morning, put their kids to school and get a plane to London, where they are based—

Jenny Marra: Why are those people nervous?

Dan Macdonald: Because they do not want change. It is as simple as that. They do not want their lives to change and they are less interested in what they do here than they are in what they can generate in bonuses and fees from a London base—

Jenny Marra: So their view is that the current constitutional settlement is better for business.

Dan Macdonald: They do not really have a view; they just do not want change.

A report came out at the end of 2012 that said that the debate on independence was a great problem, because a prominent London-based agency that is represented in Scotland had said that the debate was undermining confidence and its figures were down. This year, the same company is about to announce that it has had a record year. It has no worries about independence—or at least it is not talking about that. My interpretation has to be that the independence issue was used because the company's figures had dropped. There are issues like that out there.

I meet these guys day to day, in the pub and the club and at lunch, and I can say from my heart that I do not see a great deal of concern about the issue. When they go to London, they have a different agenda.

Jenny Marra: Mr Kilgour, who was on our previous panel, cited the referendum as the reason for delaying two investments. Was that an excuse?

Dan Macdonald: It could be; I am not sure. I have seen that happen. I am not here to suggest that that is the case; I do not know what investments he was talking about. However, the issue is a bit more complicated than the gentlemen on your first panel suggested, just as relocating to London is a very complicated matter, because the costs are enormous. I do not know where people would go, anyway, because the London market is exploding.

The Convener: You can have one more question, Ms Marra.

Jenny Marra: I would be interested to hear from the other panellists on that.

Marie Macklin: I will answer with my three hats on—as someone in construction and development, as someone who works with entrepreneurs and as a board member of the new Ayrshire College. It is worth noting that it was announced this morning that the number of new-start businesses last year was 30,263, which is up from the 2010 figure of 20,700. There is an air of confidence in the SME market.

From an entrepreneurial and enterprise point of view, I think that people are looking for growth. The people I meet in the Ayrshire Association of Businesswomen or the Association of Scottish Businesswomen are the people who are driving the economy, and I do not see any fear there. They are keeping on driving and entering competition for money from funds such as the EDGE fund, which is run by the Scottish Government, to drive forward their businesses.

There have been issues with the funding for lending scheme, as the Federation of Master Builders has said. Again, the uncertainty is about what will happen with taxation and VAT if we remain in the UK. Independence would give us the chance to look at full fiscal policies to help SMEs. I do not see fear from the SMEs' point of view.

From the construction point of view, if you go along the M8 and look up to St Vincent Street, you will see cranes. Where there are cranes, there is investment, and where there is investment, there is money and jobs. There is a new headquarters for Scottish Power and, across the road, there is a huge new private sector development currently being built by a national company.

I will finish by talking about Ayrshire College and its students. The business students and social science students took the bull by the horns and held their own indyref debate. They are the future. The young people are the people who will drive Scotland's economy. At the start of that debate, 50 per cent wanted to remain in the UK, 33 per cent saw that the best opportunity was an independent Scotland and 17 per cent were undecided. At the end of the debate, 46 per cent voted yes, 43 per cent voted no and 11 per cent were undecided. Those are the young with the "Aye, ye can" attitude that can change Scotland and make it a prosperous nation. They are the brickies, the bakers, the childcarers, the engineers, and the accountants, and they have every confidence in an independent nation.

Gordon MacIntyre-Kemp: I have the details of a 1997 poll from *Scotland on Sunday* that says that 76 per cent of businesses believe that devolution will harm the economy. I remember being told that businesses would leave Scotland and that all the banks would relocate. It is funny, but the same companies are saying the same things now, and people are saying the same things about the same companies. I have heard it all before.

I think that there would be as much uncertainty with a no vote as there would be with a yes vote. We were told that foreign direct investment would slow down as a result of just holding the referendum, but people have been signing 25-year and 30-year leases on property, and the last Ernst & Young survey showed that we had a record year for foreign direct investment projects. There is very little evidence of uncertainty.

The same businesses that you might think are a bit unsure and, as Dan Macdonald said, do not want change for their own sake, not for the nation's sake, will complain if more powers are suggested, and that is just because they do not want change. I do not think that there is any real worry here. Businesses did not leave after devolution, and I do not think that they are going to leave after independence.

The Convener: I am going to bring Jenny Marra back in, but we are short of time this morning so the witnesses will have to sharpen up a bit with their responses because we are not going to get through this otherwise. I know that Jim McColl has a plane to catch this morning.

Jim McColl: It is this afternoon.

The Convener: You will still need to leave this morning.

Jim McColl: I have got, I think, 42 investors, most of whom are from overseas. Two thirds of them are from the United States and the rest are from Europe, with two in Scotland. I am seeing no

nervousness among them at all. In fact, we were twice oversubscribed on our recent fund. Those are businesses that want to invest in Scotland.

Jenny Marra: So lack of investment does not worry you. We heard from the earlier panel that it is a real concern and that investments have been delayed. As a businessman in Scotland, does that not concern you?

Jim McColl: Robert Kilgour, for example, was talking about a small project that he is delaying.

Jenny Marra: He said that two of his major projects are being delayed.

Jim McColl: He did say that they would be going ahead although he is holding off on them just now.

Jenny Marra: But the delay could be three years, he said. It will have an impact on investment and jobs. Does that not concern you about our economy?

11:15

Jim McColl: I am concerned about our economy, which is why I want the vote to be yes. I want us to get more powers. The investors whom I talk to are keen to see what happens here, but they are not concerned about the outcome, because they will still invest. It will not turn them off. They are people who will invest large sums—much larger than those that Robert Kilgour talked about.

Dan Macdonald: It is very hard to raise money for any project just now, is it not, Jim? It is easy to find excuses not to do projects or to delay them. It is symptomatic of where the economy is.

Jenny Marra: I find that an interesting answer, Mr Macdonald, because SNP members are always telling us that the economy is improving and that we have record investment. For you to say that that is an excuse—

Chic Brodie: So did Mark Carney.

Jenny Marra: Well, that is the evidence.

My second question—

The Convener: I really think—

Jenny Marra: It will be very short, convener.

The Convener: Okay, if we get very short answers.

Jenny Marra: The witnesses are all very pro membership of the European Union for an independent Scotland. However, there is recognition that when we apply and go through the process of entering the EU as an independent country, we will not get the same conditions. That

is the reality of every political negotiation, as I am sure that you know: you negotiate all the time.

Of the euro opt-out, the rebate and Schengen, which would the panel be prepared to forfeit in order for an independent Scotland to enter the EU?

Gordon MacIntyre-Kemp: That question is based on a false assumption, I am afraid. It is entirely possible that we would end up with more opt-outs. Denmark is a small nation of a similar size; it has five opt-outs. The UK has three.

Jenny Marra: Denmark is a member of the EU.

Gordon MacIntyre-Kemp: So is Scotland.

Jenny Marra: We would be an applicant.

Gordon MacIntyre-Kemp: There is absolutely no mechanism other than us having a referendum and agreeing to leave the EU that would technically take us out. I have said before that the UK Parliament should ask for clarification on that.

You are asking us a negative question. The answer is that Scotland would have a great deal of negotiating power in renegotiating our continued membership. The sea that we control, the oil revenues, et cetera—it would be ridiculous, when we have 26 per cent of the EU's renewables capacity, to say that we would not have a strong hand in renegotiating—

Jenny Marra: So you are saying that we will get everything that we want in that negotiation process.

Gordon MacIntyre-Kemp: No. You are saying that we definitely would not; I am saying that there is a possibility that we would get more.

The Convener: Okay—we get the point. Does anyone else want to pick up that question?

Jim McColl: It is not a question but an attempt to make a point that these are issues. They are not issues. They are up for negotiation. I think that we will be able to go into the EU.

I object to something that is bandied about a lot by the no campaign. It says that we are withdrawing from the UK, we will not be part of the UK and we will not be British any more. However, we will be part of the UK, because the United Kingdom is the union of the Crowns. The Queen will still be the head of state: we are separating the Parliaments. We had a United Kingdom 103 years before we had a united Parliament. To say that we are coming out of the UK is scaremongering rhetoric.

Jenny Marra: It is political reality, Mr McColl.

Jim McColl: We are not coming out of the UK. We are in a unique position compared with anybody else in Europe, because we will remain

with the same head of state after we devolve the Parliament.

The Convener: We need to move on, or we will run out of time.

Alison Johnstone: Ms Macklin, you note in your submission that

“A constructive case has been made for the reduction of VAT on repairs”,

which has been

“repeatedly ignored by ... Westminster governments.”

I have been contacted about that issue by the construction industry and architects. There is no incentive at the moment for repair and maintenance, which is a great shame. We have a lot of hard-to-treat properties in Scotland, when it comes to insulation and so on.

A member of the earlier panel suggested that his approach would simply be to continue lobbying the Westminster Government on the issues that were important to him, but Mr McColl noted that you cannot keep doing the same thing and expect to achieve a different outcome. Is it impossible for Scottish businesses to optimise conditions for business without independence?

Marie Macklin: As I said earlier, “Scotland's Future” is an open book for the people of Scotland from all different sectors to put across their opinion on what would be best for Scotland, regarding the fiscal powers that Scotland has and all forms of taxation.

VAT is close to my heart, because my company specialises in regenerating listed buildings. In October 2012, the zero rate of VAT relief was withdrawn and VAT was put back to the standard rate. That affects the regeneration of 350,000 properties in town and city centres in the UK. It also affects the construction industry. We could be accelerating the process of repairs and renewals in buildings and creating more jobs in the construction industry but, instead, people have pulled back. A Federation of Master Builders survey showed that 43 per cent of businesses are looking to put up prices. Businesses have lobbied for a reduction in VAT from 20 to 5 per cent.

The revenue gained £85 million from the change in VAT for listed buildings, which is unacceptable. It was appalling to read in *The Daily Telegraph* that, when the chancellor put that tax in place, he was aiming at private homes with historic value where millionaires were installing swimming pools. I am sorry, but there ain't many swimming pools in Kilmarnock or Ayr. The tax is a direct tax on the construction industry, home owners and small business owners.

The Irish have come up with scenarios to help the construction industry. My submission talks

about the living city initiative, which gives seven to 10-year capital allowances—tax allowances—back to people who do repairs on old buildings. That in turn will benefit the construction industry. The hope is that that initiative will create 5,500 jobs.

With independence and our own tax-raising powers, we can look at driving the economy, getting more income for our treasury, getting people back to work and getting women back to work through childcare provisions. That is why I am passionate about a yes vote.

Alison Johnstone: That was a helpful response. I would appreciate hearing similar examples from our other witnesses, convener.

The Convener: It would help if the other witnesses were brief in adding anything.

Gordon MacIntyre-Kemp: I can provide a quick example. Of the 28 EU nations, 21 have reduced VAT on hotels, to boost tourism. Business for Scotland would support that. Ireland has a 21.5 per cent standard VAT rate, but it charges 9 per cent on restaurants, hotels and tourist attractions.

The idea is that not all tax reductions reduce the overall tax take. If we reduced air passenger duty and the tax on hotels and so on, more people would come to Scotland and spend more money on Scotland, so the overall tax take would go up. The simple idea is that raising taxes brings more money, but that is not the case. Going above certain thresholds means that people stop buying the related product.

There is a strong example from air passenger duty, corporation tax and VAT. They have not been devolved to Scotland, and I do not believe that they will be devolved in the event of a no vote, because devolving them would give Scotland an economic advantage over the rest of the UK, and London does not want that.

Christian Allard: I thank the witnesses for coming. We are talking about a successful Scotland. We are a successful and rich nation and, with a yes vote, we expect to be a more successful and prosperous nation.

We heard from the previous panel about concern over skill shortages. I am a member for North East Scotland, which has skill shortages. The white paper contains a lot on childcare, which we heard about from Ms Macklin. That could help women to participate in the workforce. What other things could help to boost the working-age population? Mr Kilgour said that he would like immigration policies to be devolved. Can we have different policies on that?

Dan Macdonald: Having a collaborative society is important. The north-east lacks engineers because we did not look forward properly. However, if, within a national plan, we can become

truly collaborative and get away from the voices of industry—the Confederation of British Industry and the like—and have people working in collaboration, as they have in Germany, there will be fewer job gaps in various industries, because things will be planned properly.

That does not answer the whole question.

Marie Macklin: With my enterprise hat on, I would say that the way to create jobs is to create entrepreneurs, and there are plenty of entrepreneurs out there. There are 340,000 small businesses that employ 1.1 million people in this country.

Going back to the fiscal powers that we have, I would look at the Irish model. Ireland's budget for 2014 has come up with some fantastic ideas to encourage enterprise and create jobs. There is, for example, the start your own business scheme, which encourages unemployed people to start their own businesses by giving them tax breaks. At the UK Government level, we have certain offerings, so to speak, through enterprise investment scheme relief and so on, but those are aimed at people who have money in their back pocket to invest in businesses. We need to look at the growth of small businesses. Ireland has the home renovation incentive scheme, which provides capital allowances and tax breaks for a two-year period so that money can be reinvested into home repairs, which in turn helps the construction industry. Another important scheme in Ireland is the seed capital scheme, which is targeted at people who have been made unemployed or who have chosen to move on. Under pay as you earn they had paid tax but, when they start their own business, they get six years' exemption from tax and get refunds.

That is how to grow an economy and create jobs, and that is what I believe independence could bring. The UK Government has had the opportunity to implement various schemes, but I refer you to what the Federation of Master Builders is saying—the schemes are not working, the funding for lending is not working and there is bias towards the construction industry. Independence would let us bring all this together and roll out new models.

Gordon MacIntyre-Kemp: Hundreds of thousands of people have left Scotland as economic migrants to the rest of the UK, including my family. I was brought up in the north-east of England and I am the only member of my family who has come back to Scotland. I have cousins all over the world who have moved to Australia, New Zealand and so on. With the powers of independence, we can start to grow our country at the same average rate as that of small, independent European countries. If we had done

that since 1963, our economy would be 30 per cent larger than it is today.

Those who would come to live in Scotland would not necessarily be immigrants from all over the world. The vast majority would be people coming back from England, Wales, Northern Ireland and Ireland—countries with which we already have open borders. I think that that is where the majority of the immigration would come from. University College London has done some work on the issue and has found that immigrants from within the European economic area bring a 45 per cent relative surplus—they earn more and they are more highly qualified. That can allow us to grow our businesses and means that we can create more employment. As Scotland grows, we will need more people. If we can get immigration right, as more people come and start to have families here, that will change the demographics and paint a much better picture for our economy.

Jim McColl: I would like to look briefly at welfare, which is not a devolved issue. I have been chairing a group in Glasgow on welfare to work. An initiative comes from the Westminster Government that is a good initiative to help people, but we have to provide the support to build the skills in people. We have to be able to bid to manage the contract, and to be able to bid we must be able to deliver the initiative nationally. Someone who is based down south bids for the contract because no one in Scotland can deliver it nationally, but they cannot deliver it in Scotland so they subcontract it to someone in Scotland. They take their fees off that money, to cover their costs in managing it, and it then gets devolved to someone in Scotland who cannot deliver the initiative in all the areas and subcontracts it again. At the end of the day, 40 per cent of the money that was assigned to that initiative to develop skills does not get to the people that it needs to get to. That is a clear instance of where devolving welfare would be a positive thing.

11:30

Another issue is that Skills Development Scotland is separate from Jobcentre Plus. They have duplicate facilities in most towns and they are not allowed to share data. We cannot go and find out about the people who need help from Jobcentre Plus. To find that out, we have to spend more of that skills development money, which then does not go into the end development of the skills. The way in which the process is set up is nuts and we need to streamline it so that it is all delivered end to end.

The Convener: Four members want to ask questions and we have about 15 minutes left, so we will need quite short responses.

Marco Biagi: I will ask just one question, which is the same question that I asked the last panel. Do you believe that successive UK Governments have done enough to enhance female participation in business, both at the start-up level and at higher echelons?

Jim McColl: No; they have not. We need to do more. That is my answer.

The Convener: That is a good brief answer.

Gordon MacIntyre-Kemp: The majority of Business for Scotland city leaders are female—that is the only thing that I will add. I agree that UK Governments have not done enough.

Marie Macklin: No; they have not done enough. I am a member of the Ayrshire Association of Business Women, which is an affiliated group of the Association of Scottish Businesswomen, and this topic has been discussed from Dundee to Davos.

The UK Government position is that it does not believe in quotas. The EU recently set a 40 per cent quota for 2020. There has been to-ing and fro-ing at a national level. Angela Merkel has set a 30 per cent quota for 2016 and we even have Christine Lagarde now believing in quotas. The Deputy First Minister here has spoken recently about the quota issue.

From a woman's perspective, women want a job on merit. We need to get women into work. When I speak to women at the Ayrshire business association, they welcome the Government's position on increasing childcare provision. It is interesting that in the FTSE 100 companies, only 17.3 per cent of directors are female. There has been a statute that companies have to put employment statistics in their accounts, and the percentage should be 25 per cent.

We have to face reality, and the fact is that a quota is required. Perhaps during that banking crisis if we had had more Lehman sisters than Lehman brothers we would not have faced the situation that we did.

Marco Biagi: I said that I would ask just one question, but do you believe that that level of improvement, both on childcare and at board level, will be delivered by any UK Government?

Marie Macklin: It has not been delivered to date, has it? I can only refer back to what is in the white paper, and what I hear out there in the streets from the women of Scotland is that they welcome the 600 hours of childcare provision; they welcome the further increase—I think that it may be going up to 1,400 or 1,500 hours—in the first Parliament when we get independence.

The Convener: Okay. I think that Marie Macklin has covered that issue very well. Margaret McDougall?

Margaret McDougall: I return to the currency issue. Jim McColl mentioned earlier that he felt that businesses would deal with whatever currency is decided upon. We have heard that there will not be a currency union and if you were to go along with that, the options are sterlingisation or another currency altogether. You said that you would be happy with that and that businesses would work with whatever they were given.

Jim McColl: For a start, I do not think that there will be an issue about having the pound.

In the broader sense, we deal with a number of currencies in our businesses. Between the UK and Europe, we deal with the pound sterling and euros; we have absolutely no trouble with that. The issue is being blown out of all proportion. We already have to deal with different currencies across our businesses.

Margaret McDougall: Do you not see that there would be additional transaction costs, for example, for businesses if there was a different currency in Scotland?

Jim McColl: A business that is dealing and has businesses outwith the UK can often negate currency costs because it can balance them up between the different businesses. If a business is constantly dealing in a currency, it can have an account in that currency. It can have in its bank a euro account, a dollar account and a sterling account. It does not need to incur costs changing currency back and forward all the time.

Margaret McDougall: Does anyone else have a response?

Dan Macdonald: It is not an issue. I believe that we will end up with a common currency if there is a yes vote. Scottish businesses will have to deal with many currencies and changes in currency more and more as we spread our wings globally, which we have to do to survive. I do not know how many countries Jim McColl is in now, but the Wood Group is in 80 different countries and the Weir Group is in 50—I may have that the wrong way round—so dealing with currency is not a problem. However, we will not have that problem, because we will have a common currency, I reckon.

Jim McColl: I always have three in my pocket. There are dollars there. It is not an issue.

Margaret McDougall: So you would have no issues with the Bank of England setting interest rates.

Jim McColl: No. That is a fiscal discipline that we would want to stick with anyway. We are well aligned with the rest of the UK in productivity and our economy, so I do not think that there would be a problem with the Bank of England setting interest rates.

Gordon MacIntyre-Kemp: The UK as it is—a common market, if you like—is an optimum currency area. England or Scotland on its own might not be. It makes sense for us to share our currency, just as it makes sense for Belgium and Luxembourg or France and Germany to share one.

Currency unions are not inherently difficult unless the wrong countries are allowed in. People talk about Greece quite a lot. The problems there are not because of the use of the euro but because of consistent failures in the management of Greece's finances, chancellor after chancellor.

Deutsche Bank has said that the UK is an optimum currency area and Citibank has agreed with that. Businesses and the people north and south of the border want the currency union, so it makes sense for everyone.

We must ask what would happen if not having a union increased the possibility that Scotland would not take on a fair share of the UK's debt. The Vienna convention suggests that it is the principle of international law that guides such negotiations. The new state takes on a fair share of debt and assets. If the assets are not given, the principle is that it would not take on the debt as well.

Scotland's economy is about 10 per cent of the UK's. If we did not take on the debt, there would be a 20 per cent rise in the UK's debt to GDP ratio. That could damage the UK's AAA rating. The issue is not only business transaction costs. There would also be a serious worry about English home owners not having the mortgage rates that they currently have. They are the ones who would pay for the folly of not agreeing to maintain the world's most successful currency union.

The Convener: We need to move on because we are very short of time. I call Chic Brodie.

Chic Brodie: We are always in great danger of conflating currency union and monetary union, which are not the same thing.

My question is for Gordon MacIntyre-Kemp. The UK has a trade deficit of about £35 billion; Scotland has a trade surplus of about £6.3 billion. Our fiscal deficit is 2.3 per cent of GDP; the UK's is 6 per cent of GDP. The capital accounts that the UK has are £446 billion. It has a debt of £1.347 billion, going up to £1.74 billion.

Bear with me. Let us just assume that we do not have a currency union. What would happen to sterling in the rest of the UK on the basis of those

figures, remembering that the Chancellor himself said last week in Hong Kong that the UK needs a much more balanced economy and needs to export a lot more?

Gordon MacIntyre-Kemp: The UK's economy has gone through a process of deindustrialisation. It is not just Scotland—the west coast of Scotland in particular—that has been damaged by that, but the rural areas and major parts of the rest of the UK; as I said, I was brought up in the north-east of England. That policy was radically different to the one followed by Germany, which invested in medium-sized manufacturing firms and SMEs. As a direct result, the Germans have had a radically different outcome, and one that has worked far better for them.

It was interesting to hear David Cameron stating in his speech from the Olympic stadium that whisky alone contributes £120 per second to the UK balance of payments. That is an admission that Scotland exports significant amounts. I think that it is actually a lot more than £120 per second and that he was using figures for last year, as opposed to the most recent ones, which I think show the amount to be £150 per second. I can supply details of that in writing afterwards. Scotland's exports were worth nearly £100 billion in 2012 alone, and whisky and other food and drink were very important to that.

The UK exports more to Scotland, in percentage terms, than Scotland exports, with about £5,000 million-worth of goods and services crossing the border from the rest of the UK to Scotland. If we were to put up barriers to that trade, the second-largest and most important export market for the rest of the UK could be damaged, as hundreds of thousands of jobs in England alone depend on that trade. I believe that that is why there will not be any barriers to trade, we will maintain open borders and we should maintain the currency union. It makes sense because it is to everyone's benefit.

Chic Brodie: Absolutely. I have one other question, for Jim McColl.

Jim McColl: I have nothing intelligent to add to that.

The Convener: We are moving on to the next question.

Chic Brodie: One of the comments made by the Sheffield political economy research institute was that, because of the weakness of the UK economy—and it is weak—potential benefits to the UK have been squandered in favour of boosting financial services concentrated in London. Some research that I have done has found that Scotland has one quarter of the population of London and the south-east, yet spending on construction, in both the public and the private sector, is one

seventh. The impact on Scottish raw materials for building must be quite substantial. How do you suggest we address that?

Jim McColl: I did not quite get that.

Chic Brodie: One of the points that you made on construction was about a UK Government policy that fails to recognise the importance of the construction industry and real up-front public investment. My question to you is, do you agree that the programme that we have engendered for capital investment, particularly in construction, has created a situation where Scotland is now, next to London, an impressive growth economy?

Jim McColl: I could just agree with you and say yes, but I have nothing further to add.

Chic Brodie: That is all I wanted.

Marie Macklin: Construction is obviously close to my heart, and I would take the focus of the debate away from the major construction companies and back to the SMEs. I see and speak to a lot of them, especially some of the contractors that have done work for us. From a construction point of view, we need to take a serious look at items such as the aggregates levy, which was meant to be devolved here but because of an EU court case it currently is not; that levy affects the construction industry. It was meant to be an environmental tax levy, but the UK Government's policy changed how the levy would work. Funds were to go into a social sustainability fund, but that was cancelled because of the austerity measures, so we now have a basic tax on the construction industry—an industry that creates jobs.

There are 169,000 construction employees in Scotland, and we would like issues that affect that sector to be addressed. For example, VAT issues can be tackled with a VAT reduction, and the Federation of Master Builders has voiced its opinion on that to the UK Government, but nobody seems to be listening.

11:45

Mike MacKenzie: Mr Macdonald, I was intrigued by the suggestion in your submission that, after independence, efficiency savings could be made from the relocation of Westminster Government departments that we pay for to Scotland, where property values and rents are much lower. Am I on the right track? Did I correctly interpret what you wrote?

Dan Macdonald: Yes. In case I have given the wrong impression, I should say that I think that we should strengthen our conduit to London. I was not suggesting that we reject London.

I got some people to look into this, and it was very difficult to get the statistics, but eventually we found a report, "The State of the Estate in 2012", which was printed by Her Majesty's Government in 2013, and we learned that 99 million square feet of space is occupied by the UK Government.

That made me wonder what we pay for and what we own. If we say that Scotland's population share is 8.4 per cent, we are talking about 4.3 million square feet—that is our rough calculation, which people can challenge, because we already have Government space here. That suggests that we would need that amount of space under full fiscal autonomy. In a nutshell, the cost of that space in Scotland—worked out very roughly, but we were not pushing the figures out; we put only £20 per square foot on it—is a third of the cost in London.

The point that I was making was that that could generate a huge stimulus for the economy and for the construction industry, in particular. That is not a reason to go for independence, but there would be a huge benefit to be gained in the generation of construction and property jobs and everything that comes with them, such as housing and services. It struck me that people have not really thought about that.

The Convener: I have a final question for Mr McColl. You sound a bit like a reluctant yes voter, because you said that further devolution was your preferred model. If a substantial package of further devolution was on offer from the unionist parties, might you be tempted to vote for that instead of independence?

Jim McColl: I am interested in the fiscal powers. Rupert Soames said that if the Government reduces the corporation tax rate it has to put something else up. That is nonsense. The Irish corporation tax rate is 12.5 per cent, and the Irish Government takes 40 per cent more in corporation tax, in absolute terms, than we take. Rupert Soames obviously did not do the economics 101 course at university.

Marie Macklin talked about how reducing some taxes stimulates the economy and leads to more tax being taken in. I want us to have the powers to vary tax rates. I would need to see what was on offer. If that was on offer, then fine, I would consider it.

The Convener: Okay. Our next panel will discuss that issue. In the meantime, I thank you all very much for coming along. I am sorry that we were so rushed, but we have a lot to get through in this inquiry.

11:49

Meeting suspended.

11:54

On resuming—

The Convener: I welcome our third panel this morning. We are joined by Ben Thomson, chairman of Inverleith LLP; Dr Margaret Anne Craig, chief executive of Clyde Biosciences Ltd; Hugh Andrew, managing director of Birlinn Ltd; and Ann-Maree Morrison, founder and managing director of Labels4Kids. Welcome to you all.

I remind colleagues that we have had two panels this morning. The first panel were people who were anti-independence and the second panel were people who were pro-independence. This panel is here either because they have no particular view on the matter or are undecided, or because they perhaps favour a middle way, with further devolution. We want to explore some of that.

I remind colleagues once again that it is a large panel, so they should keep their questions short and focused, and preferably address them to an individual panel member. If a panel member wants to answer a question that was directed to someone else, they should catch my eye and I will bring them in as time allows.

I start by asking all of you for your general view of the independence debate in relation to business, and your business in particular. What will decide for you whether it is a yes or a no, or perhaps, as Ben Thomson is, whether you would be looking for more powers? What is the key thing that you need to see to help you to make up your mind?

Ben Thomson (Inverleith LLP and Reform Scotland): Today, I am wearing not only my Inverleith LLP hat but that of Reform Scotland, of which I am sure many of you have heard. Reform Scotland is a business think tank and we represent the views of the many businessmen and businesswomen who are its members.

In principle, we think that devolution has worked and that the Holyrood Parliament is a good thing—it has given us greater local access to more political representation, which is to be applauded. We have generally felt that there are two areas in particular that would help devolution to provide a better environment for business in Scotland. The first of those is further fiscal powers so that, by and large, Scotland is much more responsible for raising the money that it spends. The second is that, in alleviating poverty, aspects of welfare—most of which are centralised at the moment—should be handled at a Holyrood and local government level.

My views and those of Reform Scotland are well known. We set out five years ago the principle of devo plus, which looks at further devolved fiscal and welfare powers. I think that we have seen unionist and independence parties moving towards the middle ground, which we welcome. As that continues, we see that as healthy and as having an influence on the debate.

Dr Margaret Anne Craig (Clyde Biosciences Ltd): Good morning, everyone. It is nice to be here. I am a cardiac physiologist and chief executive officer of Clyde Biosciences, which is a spin-out from the University of Glasgow. Our company is just over one year old and we have a fantastic opportunity. We have world-leading technology all aimed at drug discovery in the market of cardiac toxicity, in which the Food and Drug Administration regulations are about to change. I got the technology to position the company as a leader in its field. The market, which is worth several hundred million pounds, is completely open for us and we look to be in a strong position.

Now, as we prepare to scale up the company in Scotland, we have to think about investment. Will the investment come to the company in order to have it remain here and grow? Will pharmaceutical and other companies have confidence in us to deliver these technologies? I am also concerned about the research councils' budgets, which fund the technology and the technology pipeline to keep the company ahead in its field. Will those remain? There are some doubts about that. I hear research councils saying that they are unsure how they will fund Scotland in future.

That presents serious concerns for my academic co-founders and universities in general. It is difficult to sustain an academic career in science. Will the possibility of a lack of research council money have an impact on the number of scientists and graduates, particularly given that we need many new engineers and scientists for the future?

As the Royal Academy of Engineering UK entrepreneur of the year for 2012, I look at the support that I have had from institutions such as the Royal Academy of Engineering, the ERA Foundation—of which I am a fellow—and the Biotechnology and Biological Sciences Research Council, which funded me for a year as an enterprise fellow. Those bodies have all had a serious impact by providing me with real support in taking the company to its present stage. What will happen to that in the future?

Right now, I am very much sitting on the fence. We have a real opportunity, but I am concerned about sustaining the company in the future. Is Scotland the best place to scale up the company?

12:00

Hugh Andrew (Birlinn Ltd): I run Birlinn Ltd, which I set up some 20 years ago. We turn over £2.5 million and employ 20 people, and I have a couple of businesses in London that employ a further 20 people. I should say that, like Ben Thomson, I am a strong believer in a substantial further passing down of powers to the Scottish Parliament, and I believe that fiscal powers must be at the core of that. Many of the issues that nationalists raise would be addressed by a substantially more federal United Kingdom.

My concern about the great single leap into the dark that is proposed is the number of unknowns that there are. Recently, Struan Stevenson received a letter about the European Commission's attitude to the VAT derogations that apply in the UK and what the situation would be in an independent Scotland. The letter made it absolutely clear that if Scotland should apply to be a new member of the EU, those derogations would go. As someone who runs a small publishing company, I would have a minimum of 5 per cent VAT put on my books, which would not apply south of the border. That is potentially fatal for me and for the staff to whom I am responsible. I am not saying that that is an unresolvable issue, but it is one that must be considered and dealt with.

Other issues also matter to me: in the book world, we operate in a single cultural market and, to me, it seems problematic to impose an artificial barrier to that market.

As far as what would swing me the other way is concerned, I would like to see the Scottish Parliament having an attitude that was very much about fostering microbusinesses and entrepreneurship in Scotland and counteracting the huge drag that London exerts on my industry, as on so many others.

Ann-Maree Morrison (Labels4Kids): Hi, it is nice to be here and to meet you all.

I have been running an e-commerce business for nine years now. Out of the blue, I was appointed to join larger companies such as ASOS, Wiggle, Marks and Spencer and John Lewis on the UK Government task force to advise the Government on advancing e-commerce in Europe. It was quite interesting to see that bigger businesses are facing the same issues that I am.

I run a small business based in Scotland. I love working here and think that it is a great place to work; it is great for SMEs at the moment. My issues are more to do with the complexity and confusion surrounding independence. At the moment, I face no barriers to trading in the UK, but I face many barriers to trading in Europe. It was interesting to listen to the last panel, because currency is a big issue for me. I cannot set up

company bank accounts in every currency and ride the wave of currency fluctuations, because it is quite expensive for small businesses to do that; we do not have separate bank accounts in every currency. That is an issue for me. If Scotland had a different currency, I would have to trade in different currencies in England and Scotland and there would be additional paperwork, too.

Taxation and the existence of different income tax levels concerns me, as does the time that would be involved in the additional paperwork that might be necessary if, as an SME, we had to report to the UK Government as well as the Scottish Government. I would have to think about whether I needed additional advisers on taxation or consultants. Additional money, additional complexity and additional time might be involved.

Currently, most of my customers are in England, which is a concern. It is a perception thing, which might settle—again, I am on the fence—but it is an initial concern. Will customers think that, as Scotland is independent, they do not want to buy from me and would rather buy from somebody in England? Maybe, maybe not.

Postage is not an issue that I heard being discussed by the previous panel. Royal Mail works the best for us, although we have tried a number of things. We use small, C5-sized parcels. They are not big, heavy parcels and we do not have shipping containers. We sell to individuals buying name labels. There are obviously concerns. Will Royal Mail be privatised on one side but public on the other? How will that work? Do I send parcels by air mail to England, or just by normal post? Issues could arise from that.

Another issue is franchising. We have been trying to franchise our business into other countries for a while. My franchise consultant has advised that people are quite nervous just now. I think that that is just because things are unsettled and because of the uncertainty. Basically, people do not know whether to invest in Scotland, what the currency will be, or how things will pan out. That might be something that settles.

I say again: I am on the fence, and I could be swayed either way, but I have concerns. I have not seen the numbers to justify things one way or the other.

The Convener: Thank you. That was very helpful for setting the scene, so that we understand where you are all coming from.

Dennis Robertson: I will do my best not to shake your fence, because you seem to be quite comfortable sitting on there at the moment.

The SNP Government has issued a white paper, and there are the aspirations of other people within Yes Scotland about what a future Scotland

could look like. Does it concern you that you have not had the same detail from Better Together?

Hugh Andrew: Yes. I totally agree.

Dennis Robertson: That is a good answer—I am persuading you already, I see.

Hugh Andrew: It is perfectly legitimate that the Government has stated its position; the quality of the debate certainly needs a robust and literate response.

Dennis Robertson: You say “the quality of the debate”. Do you think that there is a lot of political rhetoric, but that it is in the boxing ring or something like that, and that we need to develop the quality of the debate in order to enable people such as you to come to a firm decision on 18 September, because the option that you favour is not on the ballot paper, and there is only a yes or no question?

Hugh Andrew: I agree, in terms of independence versus the status quo. I am a federalist, and I was a member of the Campbell commission. The one way that I will not get a federal United Kingdom is by voting for independence, but a federal UK is my preferred option. I was interested to hear that it seems that Jim McColl agrees that it is largely his preferred option, too. However, I have to accept the ballot paper as it stands, so I will make my judgment on that basis.

That said, there are a number of persuasive things that the Government could do, which I would—wearing a business hat—consider.

Ben Thomson: There is a lot of information around, although many businesspeople still ask why they cannot have much more information. When we start drilling down, much of what they ask for is in the public domain, but it takes time and effort to look for the information. It is perhaps the job of the Government to try and put the information out in many different forms, so that people can find it and it is easy to assimilate. I have never had a problem—in particular in getting hold of the core information that is needed to make the decision.

As regards the information in the white paper, it would be useful to know two things. First, a very good question has been asked of the Chancellor of the Exchequer. Now that he has set out what the terms of monetary union might look like after a yes vote, he has been asked whether he would start considering all the other terms. It would be useful to get a view on what the terms would be following a yes vote.

It would also be helpful to see what the parties would come forward with in the event of a no vote. One party—the Liberal Democrats—has done so. The Conservatives and the Labour Party each

have their commission; it would be nice to see those commissions clearly setting out what powers would apply after a no vote—I hope that they will do that—and reaching some sort of consensus so that the public must understand not three disparate voices but one voice in respect of what the powers may be. I very much hope that that will happen in the coming months.

Dr Craig: Hard facts have been missing, which I often hear from colleagues, particularly within the university. I need to set out to find more hard facts for myself.

We must also listen to businesses. I speak to representatives of businesses, including international businesses, about how they feel about working with us and how they think they will work with us if we do become independent. Will they be more reluctant to do so? I have to take that opinion and feed it into the hard facts that I see. Some have still not decided; over the next few months the situation will evolve as regards the research councils and how things will go for us in the future.

Ann-Maree Morrison: I am a chartered accountant; I would like to see the numbers in black and white. There is much talk about the debate; to me, debate is just arguing one way or the other. I do not want to see the arguments with one side in favour of one thing and the other side in favour of the other thing. What I want to see is the numbers in black and white—what the tax rates are going to be, what currency we will be using and so on. To me—as an SME—it would be nice if that was all thrashed out and agreed beforehand, so that we could make a decision based on that. That would happen in an ideal world, I guess. A lot of things will, we have been told, be negotiated with the UK Government after a yes vote.

Dennis Robertson: I will stick with Ann-Maree Morrison. You mentioned numbers, so we should move on to the currency. The fiscal commission working group has set out a preferred option for Scotland in the case of a yes vote. From a business perspective, what is your favoured option, based on the available information?

Ann-Maree Morrison: I would prefer to keep the pound. For me, having an e-commerce business and knowing the effort that is involved in setting up an e-commerce business in other countries—we have seven countries in progress: five are live and another two are yet to go live—I know that it is not easy to break into another European market online. People try to make out that it is easy, but it is quite difficult. There is the uncertainty, for instance, that the French might not want to invest in the UK and that people in the UK might not want to buy certain things. Members will know what it is like to go online and see that

something is priced in US dollars, so you go straight away to a UK site.

Dennis Robertson: Yes. I am conscious of the time, and I know that the convener is getting cheerier.

Ann-Maree Morrison: I think that the pound would make sense.

Dennis Robertson: You are basically saying that you would prefer the pound to remain the currency.

Ann-Maree Morrison: That would definitely make sense.

The Convener: We can quickly go round the panel for very quick answers.

Hugh Andrew: For a single market in books, of course I would prefer the pound.

Dr Craig: I would prefer the pound. Currency instability is unattractive for people who work with us.

Ben Thomson: I will play devil's advocate. If we get full independence, with sovereignty, I think that there is a good argument for our having an alternative currency. I will explain why, if I may.

The Convener: Yes—if you do so briefly.

Ben Thomson: If there were a yes vote there would have to be quite a complicated treaty, without political representation, to set up an agreement between two currencies. That treaty would be a Maastricht treaty type of treaty, as was the one that was set up for the euro. It would have to set out quantitative easing, interest rates, banking regulation, fiscal controls and borrowing controls. I could go on with the list, but that would take up too much time. The treaty would have to have rules around representation, with committees. There would need to be rules for what happens if things go wrong.

We will have a difficult set of problems, which Europe—which has political representation but not full political representation, because of the remaining sovereignty lying with the nation states within Europe—is struggling to deal with. That is why people in Europe are looking for greater political integration to cope with the single currency. Although, after a yes vote, it would be perfectly possible to set up such a treaty, it would be fraught with difficulties.

12:15

Dennis Robertson: Would it be possible to keep the pound?

Ben Thomson: It would be possible to keep the pound, but it would be harder to operate under a treaty than under political representation.

The reason for my alternative answer is that, if Scotland goes for independence and want its own sovereignty, it could do a lot with its own currency that would be quite attractive. It could do its own quantitative easing and, if the economy were to grow at a different rate from that of England, adjustments could be made either to strengthen or weaken that currency, which would help to rebalance the situation between Scotland and the rest of the world. There is an argument to say that if we want full sovereignty and the vote is yes, we should go for our own currency.

The Convener: Chic Brodie has a brief supplementary question.

Chic Brodie: We could argue all day about monetary union and what have you. Do you agree that it is possible to have a currency union without ceding sovereignty—as Ireland, for example, did in 1927?

Ben Thomson: That is possible, but it would not be particularly satisfactory.

Chic Brodie: Why?

Ben Thomson: Let us look at the points at which a currency union breaks down and becomes problematic. First, if there are differing levels within the economy and there is no pooling of anything, the currency comes under greater and greater strain. Such an approach was in place for the first 50 years, or whatever, of Ireland's independence from the UK, but there was not the financial volatility that exists now. If there were to be any strain between the two economies, all the hedge funds would pile in to maximise the effect and to create currency instability, from which they would benefit. There have been a number of examples of that.

Let us take the exchange rate mechanism as an example. George Soros was particularly adept at utilising the fact that the currencies were joined only by treaty and not by proper monetary union to create an environment in which he could make money.

It is possible to twin the country's currency with another, but you can lose out because volatility forces the two currencies apart. You also do not have the benefit of setting interest rates or of quantitative easing. If the UK has already done about 40 per cent of GDP through new quantitative easing—in effect, printing new money—that would all go to the rest of the UK if we had independence without a monetary union, but had sterlingisation.

What Chic Brodie described is perfectly possible; Hong Kong and Panama do it. One can point to examples.

Chic Brodie: Belgium and Luxembourg also did it.

Ben Thomson: I am trying, however, to suggest what would be optimal and to ask what is best. That would not be the system that one would jump to first.

Margaret McDougall: I welcome panel members. I will continue on the currency. We have heard today that there is record investment and that there have been increases in new start-up businesses. We also heard from the members of the previous panel that they had no concerns about sterlingisation or a currency union. They felt that they would manage, whatever came their way.

From what this panel has said, it seems—perhaps because you are small businesses—that you have more concerns about what would happen with the currency and how it would affect your businesses and future investment, and about how you would manage if such changes were to take place because, as Ann-Maree Morrison said, you obviously do not have the opportunities that larger businesses have around costs and setting up bank accounts in different currencies.

Apart from the currency issue, does anything else concern you? Is the currency issue your main concern?

Ann-Maree Morrison: Things like different rates of VAT concern me, because most of my customers are in and around London. Issues related to VAT are a big concern, because we have enough work with VAT now. If we had to charge people in different parts of the country different rates of VAT, that would involve a lot of website development work as well as paperwork. Anything to do with taxes would be a concern.

I run a small business and currently do not have employees in England. However, friends that I have made through networking run businesses that also have employees in England, so they have issues about different rates of pay, different terms and conditions for employees and things like that. As I mentioned, postage is the other issue that affects me with mail order.

Margaret McDougall: The problem would be with the variances between the rest of the UK and Scotland.

Hugh Andrew: I would widen that out slightly. VAT is obviously a huge concern for me, but as tax systems drift apart generally, that brings enormous issues for customers. All our big customers are England-based companies that re-export to Scotland. The hair-raising horror of trying to sort out a Scottish supply and a rest-of-UK supply is a real issue; I am concerned about considerable bureaucratic costs being added to my business because of that.

Dr Craig: A company such as ours needs to know whether it will still benefit from research and development tax credits. That would have a substantial impact on our ability to develop new technologies in the future, so it remains a concern for us. What will the level of tax credits be and will we still receive real support?

Ben Thomson: I chair four small Scottish companies. One is Barrington Stoke, which is a small publishing company for children's books that has employees in England and Scotland, and supplies schools with books for reluctant readers. It is therefore very reliant on the public sector. Anything is possible, and provided that relationships are good, we can do a lot of business in other parts of the world. However, dealing with different countries creates a problem in that we have to look at how we price the books, what the tax rate is on the books, and whether the company has employees in other countries, which increases the burdens. They are not insurmountable, but they add an extra level of bureaucracy and, if there are fewer than 20 people in the company, it takes up more administration time than it should, which costs small companies money.

Margaret McDougall: Dr Craig mentioned research and concerns about how it would work. Funding for research comes from the UK, so it would affect your business in particular if Scotland was separate. Have you had any discussions about what would happen?

Dr Craig: I am trying to look into how the research councils would work with us and whether they would still fund Scottish universities. I hear that some will, but others will base their funding decisions on the level of revenue that can be generated within Scotland in shops and elsewhere. We are heavily subsidised by the UK and that will have an impact on us. That level of funding could seriously drop, which would have a considerable impact on my colleagues and our technology pipeline.

Also, if we are not part of the EU, would we qualify for the EU grants? There are fantastic grants for collaboration between international scientists, so not being part of the EU would have an impact. Can we take part in that and work with those scientists in the future? I have just travelled to Japan and Brazil to promote our technology; I need to know how our ability to work with international companies will be impacted on in the future.

Alison Johnstone: I have specific questions for Ben Thomson and Hugh Andrew. Mr Thomson's submission points out that the financial set-up of the Scottish Parliament has led to a situation in which the Government—regardless of its political persuasion—is not financially accountable for the decisions it takes, and so it is unlikely that any

Government will want to make unpopular decisions. You will be aware that in the UK we raise just over 12 per cent of taxation from local government taxation. Across the EU, the figure is just over 40 per cent, so we have certainly taken a different approach here. If Angela Merkel had suggested as part of her appeal to voters that there would be a freeze on the council tax, she would have been in breach of the German constitution. Is it surprising that a Government that is such a clear advocate for financial independence has hamstrung its local authorities? Is more of a push needed to explain the real benefits that come from being able to generate our own income at any level of government?

Ben Thomson: You are nicely summarising some of the parts of our report, with which I would agree. In a perfect environment, we would like each level of government to be broadly responsible for raising its own spend and for areas of welfare, because that creates much greater responsibility at each level.

I agree that there are few countries in the 90 per cent club—in which more than 90 per cent of revenue is raised by central Government and then pushed down by way of budget—and the UK is in that small group, along with Greece. Ireland may or may not be; it is on the borderline. It is not a happy club to belong to. Most of the G20 and the rest of Europe are comfortable with local and regional government having much greater controls over fiscal and welfare powers.

In the Scandinavian countries that are so often heralded these days, we see approximately the same number of councils—28 in Norway and just over 30 in Sweden—but a couple of hundred municipalities. Even at municipality level, there are real fiscal and welfare powers, so if you are looking for examples of how to devolve real responsibility down and how to match spending power with fiscal powers to a much greater extent, there are some good examples of how that works. It is good for business and we get a better service if we see greater responsibility lying where the service is delivered by the public sector.

Alison Johnstone: You suggest that it is unlikely that any government at any level will want to take the unpopular decisions if it is not accountable for raising the spend, but is it not the case at the moment that the buck stops with our local authorities, although they have little power to address the issues that they face?

Ben Thomson: They can make popular and unpopular decisions, and they can use their powers in a beneficial way, but at each level of government there is a culture of saying, "Well, we've spent what we were supposed to spend. It's not our fault. Blame the level of government above." When the UK Treasury is responsible for

raising all the money, it is hardly surprising that we see so many traffic cones coming out at the beginning of March when people are spending their budgets, because they are incentivised to spend their budgets fully and not necessarily to provide the best possible service for the public. After all, what we really want—whether we are in business or as individuals—is efficient and effective use of public money to provide public services.

Alison Johnstone: I have a specific question for Mr Andrew, but before I ask it I wonder whether he would like to comment on that point.

Hugh Andrew: I would love to, as the issue is close to my heart. To give a little example, an SNP member of the Scottish Parliament, part of whose seat is a remote rural village, asked me in some bewilderment why her village was no longer allowed to get the local plumber in to fix the public loo. Thanks to procurement rules, a plumber had to be sent up from Glasgow. He had to stay for a couple of nights and he could not come for a week or two because he was too busy, when the local chap could have done it much more cheaply. That is an absolutely classic example of centralisation gone mad.

One of the biggest single issues in Scotland—I am sorry that it is not being considered in the referendum—is less to do with the distribution of power between Holyrood and Westminster, which is in many ways like two bald men fighting over a comb, and more to do with the distribution of powers within Scotland. To me, that is the true re-engineering that is needed. I am a great believer in independence for Scots, but not necessarily for Scotland.

Alison Johnstone: I agree with what you have said, and I suggest that you read Andy Wightman's report "Renewing Local Democracy in Scotland", which was launched last week and which touches on those very issues.

Your written submission states:

"That Amazon has been the sole major investment in the book supply industry indicates both a desperate paucity of vision and deep short termism in thinking."

I agree whole-heartedly. Amazon is a successful company that could potentially receive some £10 million of public subsidy. Would you be persuaded to move your position to one side or other of the fence if you were to see that kind of investment being directed to small and micro indigenous businesses?

12:30

Hugh Andrew: That would be a major factor for me to consider. As a publisher I obviously have particular issues with Amazon and its business

model. By the way, one should know that Amazon is a company that never makes a profit. In fact, what small profits it has made were usually as a result of the state subsidies it received from the various places where it opened up. My problem with that subsidy is that it represents about 2.5 to 3 per cent off the price of every book that is sold in Scotland. Immediately, Scottish businesses are massively commercially disadvantaged. We know about Amazon's interest in tax policies, and we know about its employment practices, which, frankly, are disgraceful.

The problem with the Administration in Scotland—not just the current Administration but all Administrations—is the desperate urge for the big headline about 2,000 jobs or whatever. A few years ago, we had a similar announcement about Sainsbury's in North Lanarkshire. When grocery chains—supermarkets—open in a relatively flat market, that inevitably takes money away from local traders. That consideration ought to be at the heart of the Scottish Government's investment policy.

Chic Brodie: I have a question for Mr Thomson. We are looking at the figures, but the issue is about more than just figures. We are talking about good democratic governance—not being governed by a minority of those elected to London—and about the type of society that we aspire to be. On that basis, looking at welfare reform, why do you say that things such as pension credits should be retained in Westminster when, in fact, decisions on that cannot be excluded from decisions on other aspects of welfare reform? How did you arrive at that view? Do you not think that it would be better if policy on welfare reform in total was exercised by the independent Scottish Government?

Ben Thomson: The philosophy in our submission is that fiscal and welfare powers should follow the level of Government where the spend and responsibility for providing the service lie.

Chic Brodie: Yes, but it is not just about figures, is it?

Ben Thomson: No, it is not—I am just saying that that is the basic principle that we used in our submission.

We could take the alleviation of poverty, or, for an easier example, housing. If housing is a local government responsibility, all the powers on housing, including the winter fuel allowance and housing benefits, should lie at local level, because local government provides the service. In that way, a holistic approach can be taken. I think that, in the previous panel, Jim McColl intimated that in relation to employment. If you decide to build a housing scheme with its own heating, you can

decide how to flex that to provide the end service, which is homes for people. You then have the flexibility to provide the service locally and do it in a way that is right for you locally. That was the basis of the philosophy.

Whether pensions, for instance, should be at Westminster, Scottish Parliament or local level, or with the individual, is a separate argument and that is not related in our submission. However, Reform Scotland has just done a paper on pensions, which points out that, in the UK as a whole, there is a real problem with pensions that needs to be addressed. It might be a bit long as an answer but I am happy to send you a copy of the paper, which will be launched tomorrow morning.

Christian Allard: I have a question about more powers. The convener could perhaps have saved us a bit of time and put all the panels together, because the three panels, including this one, all agree that we want more powers—whether we want them at local level or at Scottish Parliament level, we all want more powers.

Ben Thomson: I disagree.

Christian Allard: You disagree, which is strange.

A yes vote will bring more powers, because it will bring all the powers to Scotland, but we have no assurances that a no vote will bring more powers. Ruth Davidson has ruled out a cross-party agreement on more powers before the referendum. How do you see that? How do you see the balance, particularly those of you who have participated in commissions such as the Campbell commission, which said that Westminster should be able to take back powers from the Scottish Parliament if necessary?

Ben Thomson: I did not see the earlier panels, but I suspect that almost everyone from the business community will say there would be benefits in having more fiscal and welfare powers. That is mirrored in the social attitudes surveys, the most recent of which showed that 58 per cent and 65 per cent respectively of respondents want more fiscal and devolved powers across Scotland.

Your leading question was whether there should be powers for everything. If one looks at the Scottish Government's statements and at the white paper, particularly on monetary union, border controls, immigration and Europe, there is a recognition that there needs to be a strong union and relationship with our closest business partner in the rest of the UK. Two nights ago, I was at a dinner at which John Swinney was talking about monetary union, and he talked about fiscal and borrowing controls that need a degree of sovereignty loss if we are to have a monetary union. I do not think that anyone on this panel is

saying that all powers should come to Scotland; they are saying that some should.

Christian Allard: There is an assurance that, with a yes vote, Scotland will get most powers but, if there is a no vote, what kind of assurance is there? We have participated in all these debates about devo max and we have got nowhere, so what kind of assurance is there?

Ben Thomson: Well, we do not have any assurances as yet, but that is the game, is it not? We have got seven months until the referendum, and everyone is getting ready for the start line. The Liberal Democrats came out with what I thought was a good paper that set out proposals for fiscal federalism and home rule, which are very much along the lines of the devo plus proposals that Reform Scotland set out. The Labour Party under Johann Lamont has set up a commission on further powers, which will report next month, and there has certainly been talk about its looking at income tax, which is the largest tax that is currently raised in the UK. Also, Tom Strathclyde is heading a commission for the Conservatives that is due to report back by, I think, May, although it is not clear when that report is coming out.

All three of those parties are therefore talking about more powers. I certainly agree with one of the earlier panellists that it would be nice if those parties came out with one statement about what it all means, because that would be clearer for the public. Reform Scotland and the devo plus group, which I chair, have been calling for exactly that, because it would be healthy for the debate. By the time that we reach the referendum, the differences between the SNP—which is calling for a number of unions such as the union of crowns, monetary union, social union, and border controls—and those three parties might not be so great.

Christian Allard: That is a good point, but how can we trust? I believe that Mr Andrew was on the Campbell commission, which I have some reservations about. Did that commission really want to bring devolved powers back to Westminster?

Hugh Andrew: It is some time since I read the Campbell commission report, but it also recommended entrenching suites of powers for a federal Parliament. One of the greatest single weaknesses in the construction of the Scottish Parliament is that the whole suite of powers could, technically, be pulled back to Westminster. De facto, we know that that is not going to happen, but we created a clear statement that, de jure, a suite of powers should definitively be reserved to Holyrood so that they cannot be touched.

We proposed a mechanism for discussion whereby, within certain parameters, powers could be passed backwards and forwards to create

some flexibility. Therefore, I do not see the report as a Trojan horse by which Westminster could take back powers. We were trying to recognise that circumstances change and that something that is not an issue might suddenly become a huge problem. One of the great problems with any constitutional settlement is the danger of making them so rigid that they cannot respond. That was the intention; I am sorry if it did not necessarily come across.

Christian Allard: So you would not be in favour of a constitution to assure people that, if we vote no, devolved powers will stay devolved.

Hugh Andrew: I would not have a problem with that. I have always believed in a bill of rights and a clear statement on that.

Mike MacKenzie: Continuing on this theme, I am a bit astonished. I am aware of Mr Thomson's position. When the matter was being discussed, the Scottish Government said that it was more than willing to consider putting a second question on the ballot paper. Are you not disappointed that not a single one of the Opposition parties came forward with some kind of devo max proposal? What the Liberal Democrats produced recently seems to be a significant watering down of the Steel commission report, and everyone has almost forgotten that report. Are you not concerned that, in the event of a no vote, those reports will just be quietly forgotten and there will be nothing on the table from the other parties? The only opportunity for meaningful change is the forthcoming referendum and a yes or no vote.

Ben Thomson: The proof of the pudding will be in whether they deliver a consensus or not. By the time of the referendum, we will know whether the other parties have set out a consensus.

Let us look at what happened in history. In 1978, the three parties talked about further powers, but they never really came together in a consensus and we did not get delivery. In 1999 and again before the Calman commission, all three unionist parties came together and set out what they were going to do and, by and large, they then delivered that.

I believe that, if we see the three unionist parties setting out a consensus position, it will be delivered. The question is whether we will get that, and we will know by the time of the referendum whether we have it. Either it will be there or it will not.

Mike MacKenzie: I have to pick you up on a point of information. Calman recognised the compelling case for and recommended the devolution of APD, but it has not happened and it is not on the table. If I understand you correctly, you are saying that, if the three unionist parties get together and produce some coherent agreement

on a set of convincing proposals, that might influence your vote, but otherwise you will vote yes.

Ben Thomson: I think that I have said publicly that I have not made up my mind yet, but the party that comes closest to devo plus when we get to the referendum will have my vote.

The Convener: Before we leave this line of questioning—Marco Biagi wants to come in on a different point—what is the problem with devo max?

Ben Thomson: Devo max is what the SNP Government talked about as an alternative to independence, and it would have been the third option. I think that there are some problems with devo max; there are two issues in particular that we do not like.

Devo max is the idea that all tax revenue would be raised in Scotland, so all £64 billion of the public sector expenditure last year would have been raised in Scotland, and then a fee of 40 per cent of the amount that is spent would be paid to Westminster. That approach is fundamentally wrong for two reasons. One is that, if taxes are paid up to Governments, it makes the Government that they are paid to reliant on a budget, and therefore less accountable to the public. We like each level of Government to have to raise the money that it spends. The second issue is that, for as long as we are part of a union, when decisions are made in the UK, there should be no greater influence from one part of the UK than from another.

12:45

Let us say that the UK Government decides to go to war with Argentina over the Falkland Islands again. The Scottish Government might say that it did not agree with that at all. Noting that it pays the UK Government £4 billion a year towards its defence budget, the Scottish Government might say that, because it does not agree and does not like the war, it will hold back £2 billion. That would not be right if defence is a UK decision. We should only have the same representation and rights as other citizens in the UK.

Last week, an MP made the point that it was Scottish MPs and their representation at Westminster that prevented us from going any further in the Syrian conflict. We would like our representation to influence such matters on a UK-wide basis. Does that answer your question?

Chic Brodie: Can I just—

The Convener: Please be brief, as we are getting behind the clock.

Chic Brodie: Mr Thomson, do you not agree that there is regional disparity just now? A large part of the decisions, be they financial, defence related or what have you, are taken largely with London in mind.

Ben Thomson: That is exactly why we argue for greater fiscal and welfare powers to be devolved down. On certain matters, such as monetary policy, defence and foreign affairs, we think that it is better to have a bigger scale.

Another point in relation to decentralisation is that there is quite a high degree of centralisation at Holyrood. Over the past few years, there has been the capping of council tax, controls over business rates and the centralisation of the police away from local policing. Those have all been moves away from taking real power for where the service is provided. If we apply the same rules, we would like powers not only to come from Westminster, which can tend to be a little bit focused on the south of England, to Holyrood, but to then be passed down to local government. The suggestion is to further the devolution of powers both from Westminster to Holyrood and from Holyrood to local government.

Chic Brodie: They can have Trident down in the south-east.

Hugh Andrew: I will add something that is slightly tongue in cheek. The remarkable resemblance of Edinburgh in the Scottish economy to London in the UK economy has perhaps not been recognised. I am sitting watching a gigantic bridge rise out of the Forth to get more and more traffic into a city, whereas I still have to drive on a single-carriageway road up to Inverness.

You spoke about the financial sector in London. Edinburgh's financial sector is vast, and it includes a bank of such a scale that its collapse could probably bring down a Scottish economy. Indeed, it came perilously close to doing that to the UK economy. We have to recognise that many of the issues in the UK are replicated on a smaller scale in Scotland.

The Convener: I need to bring in Marco Biagi, who has been very patient.

Marco Biagi: Thank you, convener. I apologise for directing this question to Mr Thomson, but the paper that he submitted might have been a blue touchpaper for getting us to ask things.

We have heard concerns from other members about greater policy distinctiveness in Scotland but, according to the paper that you produced, the devo plus suggestion would have policy distinctiveness at a Scottish level concerning, for example, capital gains, stamp duty, VAT and corporation tax in particular. All of those have

major implications for businesses. Is it your view that the benefits of having that policy distinctiveness at a Scottish level outweigh those extra issues for businesses?

Ben Thomson: Having local taxes, whether at a local level or a Scottish level, enables people at those levels to create taxes that are efficient for the sorts of businesses that they have in their areas. I do not think that we had room to supply it, but we have a very good table that shows the different types of taxation and how they are raised in Scotland compared with the rest of the UK.

For our major industries such as oil and gas, whisky and financial services, there are taxes that we can use particularly to encourage business start-ups or generally to encourage businesses in the areas where we are strong. Those might be very different from businesses in the south-east of England. There is not much debate in Scotland about the importance of non-dom taxes, for instance, whereas that issue causes great concern at Westminster because it is important in the south-east of England. The types of taxes that I am talking about would give businesspeople good levers.

What are we trying to achieve at the end of this? We are trying to achieve an environment that is good for business in each of the locations in the UK and Scotland. To provide financial levers to help the businesses in those areas is a positive move.

Marco Biagi: I want to throw the question out to the other panel members, because some of you have highlighted areas where policy distinctiveness might be a problem for your businesses. The usual concerns are about its possible negative consequences, but if we had policy distinctiveness there would surely be an opportunity to create at a Scottish level positive benefits for your companies. Have you thought about any areas in that respect?

Perhaps Hugh Andrew is a good person to answer first, given that he highlights competition policy in his submission.

Hugh Andrew: First, on the tax issue, we too often look at the big-picture taxes such as corporation tax. When Ireland cut corporation tax to 12.5 per cent, it created a headquartersopoly economy, but those headquarters did not necessarily create real organic growth. A more persuasive argument would centre not on corporation tax but on a cut to employers' national insurance contributions.

A business such as mine needs marginal gains and competitiveness. I am not necessarily talking about a huge amount, but over time, marginal gains can add up to an enormous amount for us. Too often in politics, there is a tendency to go for

the big headline issue. We should take more of a look at the small, boring things. The weakness of competition policy in Scotland has been a huge problem. All parties should take on board the fact that the Office of Fair Trading can look at local monopolies in Scotland but, curiously, cannot consider Scotland itself as an entity.

Marco Biagi: What would others like to see?

Ann-Maree Morrison: I get a lot of support from Scottish Development International. That is great, but I am a little concerned about the funding that it might receive through UK Trade & Investment. SDI might need to increase its staff and ensure that the same amount of grant funding is available to SMEs in the future. That would be a good thing; indeed, I agree with many of the other panellists' comments that it would be a good thing for Scotland to have some of these powers. However, we need to ensure that the same levels of funding—or, ideally, more—are available to SMEs. I also agree that NI contributions should be cut.

As far as pensions and so on are concerned, it would be great if we could benefit our employees and pay them more, but in the current economy and conditions we are all struggling. Anything that can be done to help us to hire more employees would be great.

Dr Craig: Ms Morrison made a great point about SDI. For an international business such as ours, funding and support from SDI and Scottish Enterprise are crucial. Over the past year, I have watched the intervention rate for funding fall from 50 per cent to 30 per cent, which has caused us some problems. It would be great if that rate could be increased a little bit more. There is some investment for businesses that do not get any other investment, but on occasion they cannot attend events or go to certain places because the intervention rates are just not high enough.

For me, one of the issues is skills. Lots of skills are being lost to Scotland, particularly as a result of scientists leaving the country. There are women who cannot sustain their careers because they are unable to pay for childcare to support what they are doing. We are losing lots of women who have done their degrees and PhDs, who have trained in postdoctoral labs and so on. That needs to be addressed, because if it is not, we will not be able to compete internationally or get entrepreneurs and scientists out there.

Marco Biagi: You mentioned business support, childcare and so on, but would your line of business also be helped by R and D tax credits?

Dr Craig: Absolutely. A real focus for us is to look at our accounts and see where we can pull back money. A substantial proportion of our budget is for generating technologies extremely quickly. We have to move fast on that, but we

need to get the money back in to support that development, and R and D tax credits are crucial in that respect.

We also need to look at the rates for small businesses compared with those for larger businesses. Last year, I took part in work by a Westminster committee that was looking at that very issue and thinking about whether the situation should evolve and change to ensure that smaller businesses that need the money more than larger businesses are supported.

The Convener: The clock appears to have beaten us. No one else is catching my eye, so this is probably a good point at which to finish.

I thank everyone for coming along. Your views are helpful to the committee and we are very grateful to you for answering our questions.

12:55

Meeting continued in private until 13:00.

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