



The Scottish Parliament
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Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 11 September 2013

Session 4

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ECONOMY, ENERGY AND TOURISM COMMITTEE

23rd Meeting 2013, Session 4

CONVENER

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

DEPUTY CONVENER

Dennis Robertson (Aberdeenshire West) (SNP)

COMMITTEE MEMBERS

*Marco Biagi (Edinburgh Central) (SNP)

*Chic Brodie (South Scotland) (SNP)

*Alison Johnstone (Lothian) (Green)

*Mike MacKenzie (Highlands and Islands) (SNP)

*Hanzala Malik (Glasgow) (Lab)

*Mark McDonald (Aberdeen Donside)

*Margaret McDougall (West Scotland) (Lab)

COMMITTEE SUBSTITUTES

*Joan McAlpine (South Scotland) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

John Anderson (Entrepreneurial Exchange)

Professor Sara Carter (Enterprise Research Centre)

Fergus Ewing (Minister for Energy, Enterprise and Tourism)

Stuart Foubister (Scottish Government)

Derek Mackay (Minister for Local Government and Planning)

Belinda Roberts (WeDO Scotland)

CLERK TO THE COMMITTEE

Stephen Imrie

LOCATION

Committee Room 4

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 11 September 2013

[The Convener opened the meeting at 09:32]

Regulatory Reform (Scotland) Bill: Stage 1

The Convener (Murdo Fraser): Good morning, ladies and gentlemen, and welcome to the 23rd meeting in 2013 of the Economy, Energy and Tourism Committee. I remind everyone to turn off—or at least turn to silent—all mobile phones and other electronic devices.

Before we start, I hope that members will indulge me in a little advertising on behalf of the committee. We now have a Twitter feed, whatever that might mean. Our address is @SP_Economy—which I am sure will be spelled correctly in the *Official Report*—so you can follow the excitement, thrills and spills of the committee every day, if you wish.

We have received apologies this morning from Dennis Robertson, for whom Joan McAlpine is attending as a substitute. However, Joan is running a little late; she has sent her apologies and will be here very shortly.

The first item on the agenda is continuation of our evidence taking for our stage 1 report on the Regulatory Reform (Scotland) Bill. I am pleased to say that we are joined this morning by Fergus Ewing, Minister for Energy, Enterprise and Tourism; and Derek Mackay, Minister for Local Government and Planning. They are joined by Scottish Government officials Stuart Foubister, divisional solicitor; John McNairney, chief planner; Sandra Reid, better regulation policy adviser; and David Palmer, head of marine planning. I welcome everyone and thank them for coming along.

Before we get into questions, ministers, do you wish to make any introductory remarks?

The Minister for Energy, Enterprise and Tourism (Fergus Ewing): Thank you very much, convener. Good morning and happy Twittering. I welcome this opportunity to speak on the bill, as it will allow us to build on the letter that we sent last week.

By streamlining and making regulation more effective, the bill will protect our people and environment and make a modest contribution towards helping our businesses flourish and create jobs. Consistent, proportionate and

effective regulation is essential to the Government's purpose of increasing sustainable economic growth. That reflects what I am told when I visit businesses throughout the country and indeed the business community's response to last year's consultation on the options for better regulation. This Government has a record of delivering better regulation and I know from personal experience that that can make a significant difference to businesses throughout the country.

As Minister for Community Safety, I oversaw a review of fire safety regulations in the bed-and-breakfast sector of our tourism industry. The sector was unhappy about what it saw as over-the-top fire safety measures, and a working party that I chaired over a long period simplified requirements and reduced the average cost of compliance by more than 90 per cent while ensuring that high safety standards were maintained. That approach was welcomed and, as a result, I strongly believe that although regulation is necessary to protect the environment, consumers and people in business, our approach must also ensure that we apply the principles of better regulation: namely, regulation that is transparent, proportionate, consistent, accountable and appropriately targeted only when needed. The Regulatory Reform (Scotland) Bill aims to improve the application of regulations in practice across Scotland to support business and economic activity and deliver benefits to society.

My colleague Paul Wheelhouse has already given evidence on the bill's environmental aspects to the Rural Affairs, Climate Change and Environment Committee. I am also aware that you and your colleagues have been taking evidence from a variety of organisations and regulators on the bill's enterprise elements, on which I lead, including the enabling power to encourage or improve consistency in the exercise of regulatory functions; the duty to contribute to sustainable economic growth in regulatory activity and the related code of practice and amendments to requirements for certificates of compliance for mobile food business street trader licence applications. As you know, I have already signed a memorandum of understanding with Councillor Stephen Hagan of the Convention of Scottish Local Authorities on working together to develop future national standards.

We also recently consulted on the merits of primary authority partnerships, and we are now analysing the 42 largely supportive responses to that consultation. A code of practice working group has been set up to develop a draft Scottish regulators' code of practice for consultation later in the year.

You may also be interested to know that, in July, the United Kingdom Government issued an updated regulators' code and published a Deregulation Bill, which includes a duty to

"have regard to the desirability of promoting economic growth."

Although that is relevant to businesses that operate across the UK, we in Scotland remain firmly focused on better regulation rather than deregulation. We are committed to a high level of stakeholder engagement and to responding to stakeholders' views.

I will end by acknowledging the interest from MSPs and stakeholders in the duty to contribute to sustainable economic growth and, in concluding these short opening remarks, I make it clear that this duty does not state that sustainable economic growth must be foremost over other regulatory objectives or statutory duties and does not prioritise sustainable economic growth over other regulatory objectives or statutory duties. Regulators need to determine an appropriate balance and be accountable for that. In their responses to consultations and to the Parliament's committees, regulators have signalled that they already act in that way and I welcome that. The bill supports that existing good practice and will extend it across Scotland as a whole.

Before we take questions, I am sure that my colleague Derek Mackay will wish to add a few opening remarks.

The Convener: We are very fortunate in having a brace of ministers this morning. Mr Mackay, would you like to say something?

The Minister for Local Government and Planning (Derek Mackay): Yes, please, convener.

I, too, thank the committee for the opportunity to discuss the Regulatory Reform (Scotland) Bill. The planning reform next steps programme is making progress by encouraging improvements to the planning service to ensure that it fully supports economic recovery through promoting the plan-led system, driving improved performance, focusing on delivery and simplifying and streamlining the system. We have also consulted on a revised Scottish planning policy that provides high-level messages on ministers' planning expectations, including a high-performing, high-standard function that focuses on achieving outcomes that make a difference to people rather than process alone in playing a key role in facilitating economic recovery and sustainable economic growth.

Our key aim is to make the SPP much clearer on how planning can support the delivery of jobs and growth. We propose, first, that significant weight be attached to the economic benefits as a

material consideration in the planning process, particularly the creation of jobs and, secondly, that development plans must be deliverable and informed by sound economic evidence, particularly local economic strategies.

As you are aware, I am committed to improving the performance of the planning service in Scotland. I have discussed with staff in every authority in Scotland my aspirations for a high-performing service. I understand that there has been a significant stakeholder interest in section 41 of the bill, which relates to charges and fees for planning authorities' functions. With approval from the Scottish Parliament, planning fees were increased by approximately 20 per cent on 6 April 2013, and I consider that that increase will strengthen planning authorities' resources and capacity to deliver a high-performing service while maintaining a supportive business environment that supports economic growth. Scottish ministers maintain that any fee increases must be inextricably linked to performance if we move towards full cost recovery and I am dependent on local authorities to improve their performance and for them to provide the justification to do so. I will not make any knee-jerk reaction to reduce any authority's fees based on one period of poor performance, and the process will include an opportunity for authorities to improve on areas identified through assessment before I seek to use any new provisions.

A high-level group on planning performance has been formed. The group, which I co-chair with Councillor Stephen Hagan, COSLA's spokesperson for development, economy and sustainability, and which includes key representatives from the Society of Local Authority Chief Executives and Senior Managers, Heads of Planning Scotland and other key agencies, has identified and agreed a set of performance markers that reflect key areas of essential good performance and service quality across the planning system. Those key markers are in the main not new but are drawn from the existing planning performance framework that we developed with local government and other stakeholder groups when it was introduced and form the basis of the assessment that will be used to consider whether to vary any individual planning authority's fees. The high-level group is taking forward detailed practical arrangements for use of section 41 provisions. I am not indicating that COSLA supports the section, but I will continue to work in partnership on that and all other matters relating to the bill.

The Convener: Thank you, minister. As we need to cover quite a lot of territory in the next little while, I ask members to keep their questions short and to the point, and it would be very helpful if we had responses along the same lines. It will

probably be self-evident which minister the questions are directed at, but it will help if members indicate to whom they are asking their question to ensure that there is no confusion.

I will start with section 4, because the evidence that we took suggested that the duty on sustainable economic growth is potentially the most difficult and controversial part of the bill. In your introductory remarks, Mr Ewing, you talked about the Government's priority of promoting sustainable economic growth, but can you tell us what sustainable economic growth is?

Fergus Ewing: I know that there has been a particular interest in the definition of sustainable economic growth and in my most recent letter to you, dated 5 September, I provided it. Given that I am not a parliamentary draftsman and given that anything a minister says is his bond, I will just read from that letter rather than indulge in extemporary contributions.

The Scottish Government defines sustainable economic growth as:

“building a dynamic and growing economy that will provide prosperity and opportunities for all, while ensuring that future generations can enjoy a better quality of life too.”

Indeed, that definition can be viewed on the Scottish Government's website in the answer that John Swinney gave to a parliamentary question on 20 November 2012. That indicates that, although there is always interest in this area, the Scottish Government's response has been stated clearly, frequently and with absolute consistency. I hope that we have provided absolute clarity in that regard.

09:45

The Convener: Thank you for that. We have been told in evidence—and we have confirmed this ourselves—that the term “sustainable economic growth” has not been previously defined in legislation. Will you be putting the definition that you have just provided in the bill?

Fergus Ewing: The question whether definitions should be put in bills is one on which we have to take legal advice, so that is a matter for legal advice. We have provided a clear definition of sustainable economic growth. If any of the officials wants to provide additional information, I would be happy for them to do so, but it seems to us that, given that we have provided a very clear—albeit general—definition, that should suffice. To some extent, we are all anxious to get on with delivering economic growth rather than talking about defining economic growth.

The Convener: I think that the point is—we have heard this in evidence—that if there is no

definition in the bill, inevitably it will come down to the courts to define the term, and we will end up in litigation. We have heard quite a lot of evidence that says that, because of the impact that the bill will have on a number of regulators, and given that, as you will be aware, when it comes to development and planning, there might be very large sums at stake, it is very likely that stakeholders—either developers or objectors—will end up in the courts to challenge particular decisions based on this provision being put in the bill. Therefore, the courts will decide. Surely it is preferable for Parliament to decide on a definition and to put that in the bill, rather than have the courts decide at a later date.

Fergus Ewing: There is always the risk of court action on all sorts of things. It is not really possible to prevent that, no matter how a bill is drafted. It would be nice, particularly for ministers, if there were a way in which we could avoid some of the litigation in which we are involved but, sadly, that is beyond our ken. Equally, it is important that people have the right to take matters to court. That is an element of civilised society.

The Convener: I am sorry, but you are not seriously telling me that you think that it is preferable for the court rather than Parliament to decide these matters.

Fergus Ewing: I am just coming on to answer your question. We do not think that there is a compelling case for including a definition in the bill. Of course, we are always happy to consider such matters further, and we can have a little bit of legal advice and contribution, if you want, in a moment. It would be imprudent for me to say anything other than that these are matters on which we need to reflect very carefully, for the reasons that you have described.

However, our current view is that there is no compelling case for including a definition in the bill. I should point out that the duty will be underpinned by the code of practice. To address stakeholder concerns about the matter, a definition will be included in the code. The definition will be the one that we have provided very clearly, and over a long period, in response to a series of questions that have been put in writing and verbally.

Of course, we will be happy to consider the matter carefully once again if the committee feels extremely strongly about it and come back to you, but we have reached the view that there is no compelling case for including a definition in the bill. That is our current view and the advice that we have had, after quite a lot of consideration of the issue over a long period, and other bills as well. I do not know whether there is any litigation that you can point to over the matter. Sustainable economic growth has been our primary purpose since the previous Administration was formed.

The Convener: Yes, but the term “sustainable economic growth” has not appeared in a bill that has been passed by this Parliament so, clearly, there would be no litigation around that, because it has not been in the law.

Fergus Ewing: We will take time on that and look at it carefully again because, if that is the case, that would be a reasonable point to make. Our current advice is that there is no compelling case to include the definition in the bill, but we have provided a definition. Indeed, that definition, having been stated very clearly in these committee proceedings, will be available for any court to look at in relation to the interpretation of bills. As I understand it, courts are allowed to do that, although I am now trespassing into the area of legal advice, which officials may want to urge me not to do further.

Stuart Foubister (Scottish Government): If it helps, I think it highly unlikely that any legal disputes over section 4 would descend to a definition of sustainable economic growth. I can see the scope for dispute as to what the duty requires a particular regulator to do in a particular circumstance, but I do not think that that is the same as saying that there is a dispute as to what “sustainable economic growth” means. As the minister has pointed out, we have provided a definition in the letter that is likely to feed through into the code of practice or the guidance. If you look at the language that is used, you will see that it is not of the nature that one would normally see in a statute. It is not that kind of legal definition.

Alison Johnstone (Lothian) (Green): I welcome the fact that the minister is thinking about excluding planning functions from the duty to contribute to sustainable economic growth.

We are being asked by the Government to pass what appears to me and to others to be a convoluted and caveated economic duty—namely, a duty for regulators to promote sustainable economic growth, except in cases where that affects their regulatory functions. We have taken a lot of evidence from bodies such as Scottish Natural Heritage, which claims that it will make no difference whatever to the way in which it works, but we have also heard from 12 local authorities that are against the proposal. The unions are opposed to it, and the regulatory review group itself did not suggest or fully endorse it.

Given that we have heard a lot of conflicting evidence and a lot of evidence that does not support the inclusion of the duty, would it not be better to drop the section entirely and allow the successful, non-legislative approaches to continue to deliver consistency?

Fergus Ewing: No. I do not think that that is a suggestion that is well founded, and I am afraid

that I respectfully disagree with the characterisation of the position as set out by Alison Johnstone. In all Scottish regulators, we are determined to promote a broad and deep alignment with the Government’s primary purpose of delivering sustainable economic growth. We accept that regulators are making progress and that they balance existing duties, but the statutory economic duty, alongside the code of practice, will—we believe—deliver greater transparency towards the Government’s purpose of achieving sustainable economic growth.

The duty, as I have already made clear, does not prioritise sustainable economic growth over other regulatory objectives. Some statutes prioritise specific duties. For example, the Sandford principle sets out that the first duty set out in relation to national parks should be given preference, in certain respects, over the other duties. That is a possible course of action, but we have not done that, because we take the view that we should not prioritise economic growth as the consideration to which most weight must be attached. On the contrary, we have said that it must be something to which regulators must have regard, and I think that that is the correct approach.

It would be perverse were that not the correct approach, given that delivering sustainable economic growth is the primary purpose of this Government. I could invert the proposition to Alison Johnstone and say that it would surely be perverse if there were no duty whatever to have regard to what is the primary purpose of this Government. Of course regulators should have regard to it. Therefore, the duty is sensible and necessary. I do not think that how Alison Johnstone has characterised the responses to the bill—she has suggested that this does not receive substantial and reasonable support from wide quarters—is correct.

I want to stress that the approach that I have taken—and I hope that this will not be disputed—has been to have lengthy, detailed and constructive discussions with Stephen Hagan and his staff in COSLA over a long period. We have been very keen to make sure that, in relation to the economic duty, we work extremely closely with COSLA and seek to deliver the bill in a way that is broadly supported by COSLA. I believe that we have achieved a great deal thus far, working with COSLA in that regard. I am proud of the fact that we have had that engagement, and I think that the proposed duty will make a positive contribution to the achievement of sustainable economic growth in this country.

Alison Johnstone mentioned the exclusion of planning from the economic growth duty. The reason why we have taken that approach is that

we think that the application of the bill to planning authorities is not the appropriate way to deal with matters, because sustainable economic growth is already a consideration that is enshrined in planning law. I am sure that Mr Mackay will be willing, if he is permitted so to do, to set out our thinking on how the sustainable economic growth imperative will be taken forward in relation to planning law. It will be taken forward in planning law in practice in another way, and not in the bill. We are not dropping anything; we are just doing it in a different way.

I do not know whether Mr Mackay might want to answer that part of Alison Johnstone's question.

Derek Mackay: I fully expected questions on this subject. As Mr Ewing has indicated, it would be inappropriate for the duty to apply to our planning functions, but the pursuit of sustainable economic growth will continue in planning policy and national planning framework 3. Indeed, it is reinforced in the emerging policies that I continue to actively consult on.

Within those policies, we propose that economic impact and economic benefits should have greater weighting as a consideration in the planning system. That is an appropriate policy place to have that discussion; we should not necessarily have it in the context of a duty that might convolute the appeals process as it relates to planning. That said, sustainable economic growth or economic impact does not necessarily override all other considerations in the planning system. The planning system is about having a balance and an understanding of a range of factors that lead to a conclusion on whether to consent. It is certainly a policy approach as opposed to the legal approach that the bill might have led to. That is why we have been enthusiastic to clarify the point.

Alison Johnstone: Thank you. That is helpful. Unfortunately, I think that it is fair to say that the committee spent a fair amount of time discussing examples that might have arisen were the duty to apply to planning. The clarification is welcome now.

When Councillor Cook from COSLA gave evidence, he said:

"the duty to promote economic growth cuts across local democratic accountability."

He also said, in relation to the question that he was asked about whether COSLA regarded the national duty as ideal:

"our response ... is simply no."—[*Official Report, Economy, Energy and Tourism Committee*, 5 June 2013; c 2953-4.]

Although we are being advised that the economic duty will not be prioritised above others, it is very subjective. Deciding which level of

importance to give to an economic duty is a very subjective decision. We were given an example of a shop that is selling bootleg alcohol and, because of that, is making money and growing its business. Could that be a defence against regulatory action?

10:00

Fergus Ewing: I am not going to start to talk about bootleg alcohol, especially so early in the morning.

To take your question seriously, we have had very positive discussions with COSLA. We have had very good working and several meetings with COSLA over a long period. A lot of work has been carried out. A code of practice will be developed by regulators and stakeholders. That will be consulted on prior to introduction. I think that that will provide a lot of practical assistance to regulators and stakeholders, and I hope that it will address some of the concerns that members have expressed in this committee and previously. A short-life working group comprising business representatives and regulators including the Scottish Environment Protection Agency, SNH and COSLA has been established to develop the code of practice.

In practice, we spend a lot of time—and rightly so—engaging with local authorities. I engage with Moray Council on the Buckie shipyard which, sadly, went into administration a week ago yesterday. I engage with Stirling Council in relation to homecoming issues. I engage with Aberdeen City Council and Aberdeenshire Council about the oil and gas industries. Such engagement is very important to me. I could give you many other examples—I engage with the island councils in relation to renewable energy. That is very important. We want to work in partnership with local government, and we do. That is extremely important to us. I think that the bill, working together with the benefits of the code of practice and all the engagement that there has been, will make a significant contribution to creating more jobs and businesses. I hope that that is something that the Green Party would welcome in Scotland.

Alison Johnstone: We had a meeting with a senior environmental trading standards officer who said that, in working with the owner of a burger van or a baker with a mouse infestation, those people's livelihoods are at the front of officers' minds and they constantly help them to get back to work as quickly as possible. Local authorities fully understood the need to contribute to the working world and the economy. He was resolute in his belief that there is no need for national legislation.

On sustainable economic growth, you recognise that sustainable development is a well-understood

and established concept. The Law Society of Scotland could not have been clearer about its concern that the bill is a lawyers' charter. I do not understand why we are going down the road of foisting legal uncertainty about the concept of sustainable economic growth on regulators.

Fergus Ewing: I respectfully disagree with almost all Alison Johnstone's assertions. The bill is not "foisting legal uncertainty" on anyone; I refer to comments by my officials earlier, in that regard. The new duty is about providing clarity on the Government's purpose and demonstrating the obvious—namely, that the Scottish Government and regulators in Scotland value economic growth and protection of the environment. Those need not be mutually exclusive; we can, and should, aspire to deliver mutually supportive outcomes wherever possible.

We have sought to cover all those issues today, and in extensive correspondence. We will look specifically at the issue that the convener raised about the need for a definition. I can see that we have not satisfied all the committee's members, so I undertake to return before stage 2 with a further letter setting out our views so that we can, I hope, close this argument.

Hanzala Malik (Glasgow) (Lab): Good morning, minister. On the one hand, you said that you will look at sustainable economic growth and sustainable development. I am pleased about that and I thank you for saying that. However, some of your other responses almost disagree with that. I want to reassure myself that you are really saying that you will look at the matter again.

Fergus Ewing: What I said in response to the first line of questioning from the convener is that I will come back to the committee with a letter prior to stage 2 on the specific question whether there should be incorporated in the bill a definition of sustainable economic growth. That is fairly clear.

Hanzala Malik: Foot-and-mouth disease and horsemeat pollution in our meat affect our economy, tourism and a host of things, including licensing. How will the bill protect the community from that type of activity?

Fergus Ewing: I must admit that I have not specifically considered foot-and-mouth disease in relation to the bill. My recollection is that those matters are considered primarily by appropriate veterinarian and health experts upon whose advice we tend to rely.

Hanzala Malik: My point is that those issues affect our economy and tourism. The bill is looking at sustainable economic growth and sustainable development. Surely the bill must have a role in protecting industry from that type of activity.

Fergus Ewing: What sort of activity?

Hanzala Malik: I mean, for example, horsemeat contamination of meat.

Fergus Ewing: I am happy to look at that issue and come back to Hanzala Malik on whether the matter has implications for the bill. However, my initial view is that that is unlikely.

Chic Brodie (South Scotland) (SNP): Good morning, ministers and teams. I have never been sure why we went up this blind alley. I have read several local economic development plans and I have yet to see bias one way or t'other.

You and your advisers will have read many more plans than I have. Will you advise me where the economy has superseded sustainable development in any of the plans? In fact, are they not indivisible and do they not work alongside each other?

Derek Mackay: Mr Brodie's point is correct; it is not a choice between sustainable economic growth and sustainable development. They are actually compatible, in keeping with each other and in harmony. Sustainable development has a very well-established definition, simply because of its duration and its timing, and it is a bit more lengthy than the definition that is provided on sustainable economic growth. The parliamentary process is assisting, and I am sure that we can all regurgitate words to mean the same thing. However, there is no conflict.

The debate around whether we are, for example, diluting our sustainability agenda is false. That is at the heart of Government policy and our definition. We can say as many words as we like to mean the same thing but, essentially, the definition is provided by the cabinet secretary, for the Government. Sustainable development as embodied, for example, in planning documents has been established for longer. Therefore, you could describe it as being more widely understood. However, there has never been any serious challenge to the Government's understanding of sustainable economic growth as an overarching purpose or as something to achieve.

On Alison Johnstone's point, for any planning consideration we have to consider a range of factors and then come to a conclusion. Not least in our minds is the economic impact, what happens to a community and what the benefit of any application is. I think that the debate about definition is something of a distraction from the emphasis.

Chic Brodie: Thank you.

The Convener: I will take a very brief follow-up from Alison Johnstone.

Alison Johnstone: Do you consider, for example, the development of Donald Trump's golf course at Menie, on a site of special scientific

interest, to be a clear case of economic considerations outweighing environmental considerations?

Derek Mackay: It would be completely inappropriate for me to comment on that.

Alison Johnstone: Will the bill stop such situations occurring in the future? Will it ensure that such consideration is given full weight?

Derek Mackay: Let me give an assurance in another way. Even in the emerging planning policy as proposed in SPP, sustainable development remains at the heart of planning policy. However, again, the clarification that we have given to the committee is that the duty will not cover the planning function. In all such decisions, there is a balance to be struck, and sustainability remains an important consideration.

The Convener: Thank you. We entirely understand that you cannot comment on a particular planning application—current or historical—and that it would be inappropriate to do so.

Before we move on from this topic, I ask for clarity on one other point. Will the new duty also apply to licensing boards?

Fergus Ewing: No, it will not. Licensing boards are not among the bodies that are referred to in the relevant schedule.

The Convener: Okay. Thank you for clarifying that. We need to move on. I bring in Margaret McDougall on planning fees.

Margaret McDougall (West Scotland) (Lab): Thank you. Good morning, ministers and officials.

In response to the Rural Affairs, Climate Change and Environment Committee report, the minister stated that the costs of processing planning applications are not known. Given that, will the minister provide an explanation of the decision to review the planning system without first establishing the base for the applications?

Derek Mackay: Margaret McDougall's question is a good one. We have used various evidence sources over the piece, including information from Audit Scotland that suggests that there is a gap of some £20 million between the cost of delivering the planning service and income from fees. We were working with that estimate when we considered the planning fee increase that Parliament then considered.

Margaret McDougall will be well aware that the Scottish Government does not provide the planning service at local level and that local authorities establish the figures and costs. That is why we are working with Heads of Planning Scotland to get a fuller understanding of the cost of a planning application and a decision. Of

course, costs vary from application to application and authority to authority. The situation is very complex, but we rely on Heads of Planning Scotland to lead that work and to assist us in moving towards full cost recovery. I can go further if Margaret McDougall wants me to do so. That is the evidence and information that we are asking for; previous assumptions were based on information that was provided by Audit Scotland.

Margaret McDougall: So, we do not yet know what the costs of planning applications are and what the cost to councils for processing those will be.

Derek Mackay: I think that what I said was that the cost depends on what the application is and where it is made. Different costs are levied across Scotland, because the planning system is largely, in the first instance, delivered by local authorities. They have not established the full cost of each application in order for us to be able to consider that. Of course there are different levels in the value of applications and, therefore, in fees.

A bit more work needs to be done on the specifics in order to move to full cost recovery. That has to be done in a way that is justifiable. I cannot, for example, ask the private sector to pay over and above the genuine cost of the application. We need to understand that, to probe into it and—to use that terrible term—to drill into the figures and the cases to get a fuller understanding of what every application might cost, in order that we can establish that principle.

We know the global cost of the planning service and the global fees-income figure. That took Audit Scotland to the conclusion that there is a gap of some £20 million. We have plugged some of that gap with the 20 per cent increase to the planning fee this financial year, which we estimate will generate between £4 million and £5 million. That is based on current levels of applications, which, of course, may vary in the light of economic recovery.

Margaret McDougall: Will that go back to local authorities—

Derek Mackay: Yes. The local authorities are working with us in the high-level group. We are working in partnership with Heads of Planning Scotland to establish the cost of planning applications and to take that work forward as best we can.

Margaret McDougall: We have heard lots of evidence on the views of planners, how the bill will affect local authorities and how we can measure the performance of planning authorities. What is being done to ensure that we are measuring planning authorities as best we can? It seems that there is no clear evidence of what is a well-performing planning authority and what is not such

a good one. We heard that the likes of the City of Edinburgh Council can be very different from rural planning authorities, in respect of the complexities of the planning applications that they receive. How do you assess the performance of a planning authority?

Derek Mackay: That is a very good question. I hope that some such information has been provided to the committee. If not, I will make sure that you receive it.

There are markers of good performance that are based on the planning performance framework. Those pose a number of questions on timescales, offering of processing agreements, pre-application consultation for major applications and whether a plan is less than five years old, which is a statutory requirement. There is a range of indicators. The situation is not black and white; it is not that there are good authorities and bad authorities. There is a range of factors, some of which, of course, would be outwith the planning authorities' control.

You can probe particular questions. Some of them will be yes or no questions on whether the authorities do something or not. Some of the questions are about indicators and average timescales for how long it takes for a planning application to go through the system. To be frank I think, as many members do, that it takes too long in many areas, and that that is unacceptable and must be challenged.

We can assess the general performance of a planning authority across a range of indicators. We have been doing so through the performance framework, which was designed in partnership with Heads of Planning Scotland. We are now formalising that through the high-level group, which works in partnership with Heads of Planning Scotland, COSLA, SOLACE and others to make sure that we get it right.

Performance can be considered in a number of different ways. The sanction will give us time to probe that and to assist planning authorities to improve. It is not good enough just to give an improvement agenda and nice reports from the minister, and then to cross my fingers, hope for the best and hope that things will get better. That will not be acceptable if we are making a commitment to link performance inextricably with fees. A 20 per cent fee increase was a big ask. It will get more resources into the system, but we have to be serious about performance and I believe that that mechanism will be a driver to improvement. COSLA does not support that. If I were a council leader—which I was—I would probably not like the mechanism, but I know that I would also ensure that I was driving up performance in the planning system. Every other part of the corporate council would take the same

approach to such potential lost revenue, so it is a very powerful incentive.

10:15

Margaret McDougall rightly asked me about views. I would not expect local authorities to support the measure, and COSLA is clear that it does not support it, but we continue to work in partnership on how to establish good performance. By definition, we can then establish areas in which development and improvement need to take place. I know that the committee has heard a great deal of evidence. I do not leave it to officials to tell me what is happening in the planning system, so I have visited every planning authority in the country, some by grouping them together and some by visiting the individual planning authority. Every planner in this country who accepted the invitation has had the opportunity to hear the Scottish Government's views on planning and to question me personally. I am well sighted on the views of planners throughout the country.

I have also had a great deal of engagement on that with stakeholders and COSLA, including visiting—which was a pleasure, of course—the leaders meeting, in front of 32 council leaders and their chief executives, to discuss planning. That meeting has a high level of political importance. If we are to establish the link between fees and performance, which a good number of respondents and witnesses have said is a good thing, we need a mechanism to do it. I suggest that what we propose should be the mechanism.

Margaret McDougall: Will there be a definition of satisfactory performance in the bill?

Derek Mackay: No. That would not be appropriate—it would be uncommon to have such detailed information in the text of a bill. It might be more appropriate to include a definition in guidance or in another vehicle—perhaps a statutory instrument—but one would not necessarily legislate for performance. In the same way, the Accounts Commission or Audit Scotland are created by statute, but the legislation does not include all the indicators that they would use; those would be designed and constructed differently.

I propose the same in this context, but I will not work up a definition in isolation, which is why I have engaged with experts, planners, local authorities and other stakeholders to ensure that we get it right. There will be a proper collaborative process. It would not be appropriate to put a definition in the bill.

Margaret McDougall: You mentioned sanctions. All our witnesses apart from one have said that they do not think that the application of

sanctions on planning authorities would be helpful, because it would reduce the funds coming into their departments and place added pressures on them. Will you continue with the plan to place sanctions on local authorities that are deemed to be underperforming?

Derek Mackay: The thrust of the work by the Government—and by me, as the minister—has been positive and has focused on encouragement, incentivisation, new investment, support and picking up best practice from across these islands. However, that is not good enough if it does not achieve the right performance outcomes. I am, therefore, serious about the mechanism, and about increasing planning fees. In order to be able to justify any future increase, I must have evidence of improved performance. We have to be serious about that in the planning system, so we propose to continue with the mechanism, which I believe will be an incentive.

A council leader, a director of finance or a chief executive with an underperforming planning system might not take as much interest as they should. That might be an unfair comment, but if there was a potential loss of income generation for their authority, it would suddenly become a financial matter as well as a performance matter. That type of corporate approach is one of the things that we need to improve in order to achieve a better planning system.

All too often, I hear from the planning system that a problem was not the fault of the planner or the planning service—it might have been legal obligations, the roads department or a response from the education department. I want all parts of the local authority to take planning and its functions seriously, and the mechanism will be an incentive to move in that direction.

The mechanism will improve behaviour and outcomes, and there will be no loss of income because planning authorities will step up to the plate. I fundamentally believe that—as do many of the stakeholders with whom I have engaged. However, if I was a witness coming to this committee with a planning application in the system, I am not so sure that I would be heralding my support for such a penalty mechanism against the very planners who might make the decision on my application. I am therefore not surprised that some people have been quite quiet in their support for the mechanism, although I detect much support for it throughout the country.

Margaret McDougall: Given the legal implications, as planning authorities sit outside and are separate from local authorities, how would the mechanism apply?

Derek Mackay: That is correct. Planning decisions are quasi-judicial in terms of the merits

of the case and the functions therein. Much of planning policy relates to the policy corporate, which is perfectly relevant. When we go beyond assessments and the other policy impacts that have sometimes held planning back, we can see that it is not just about the planning service. You are absolutely correct regarding individual planning decisions and consideration of them, but planning is very much part of the local authority, not least because of the importance of economic development to a council's functions. It would not affect in any negative way the legal imperative.

Some people have asked, "What if authorities simply rush planning decisions so that they do not hit the trigger on timescales?" As I have said this morning, there is more to planning than the timescale—although it is important—and I have already produced markers of good performance in a planning authority. A lot of applicants want certainty, engagement and a good understanding of the process. The mechanism will not contaminate the purity of the planning system in any way; rather, it will act as an incentive to achieve better performance across the board.

Margaret McDougall: Given that you expect that the increased fees will increase the income of local authorities, will that mean that grant-aided funding to local authorities will be reduced?

Derek Mackay: There is no correlation between increased planning fees and the general grant settlement to local authorities.

The Convener: Before I bring in other members, I want to clarify something that you said earlier in relation to COSLA. You will have seen the letter—which was sent to me and copied to you—from your good friend Councillor Stephen Hagan, in which he, on COSLA's behalf, states:

"Our view continues to be that it is fundamentally too much Ministerial interference in the operations of a specific council service".

I presume that you would agree that local authorities that are democratically elected by their local population are therefore accountable through the ballot box.

Derek Mackay: Absolutely.

The Convener: So why do you not just leave the matter to local authorities and their local electorates to determine? If a local council administration is performing badly on planning or something else, it is surely up to the local population to vote them out of office.

Derek Mackay: Surely that is not a serious proposition from a Conservative: that if a council is performing badly, I should leave it to it—especially in an area in which the Scottish Government has clear responsibility, and given that every planning

application in the country could be determined by the minister.

I have taken a different approach from that which has been taken south of the border. Just for information, if a planning authority south of the border is deemed to be performing poorly, the minister has the power to assume direct control over it. That is a far more centralising agenda than the one that I am trying to deploy in Scotland, which seeks to encourage localism, decentralisation and local decision making and—absolutely—to improve performance.

If the Scottish Government is ultimately responsible for the fee, I have, in connecting fees to performance, to be serious about performance. I know that COSLA objects in principle to that section of the bill. It would, wouldn't it? I fully anticipated that, but there is a great deal of on-going positive partnership work with COSLA on that agenda, and the objections will not stymie that progress.

The Convener: I was trying to understand whether or not you believe in local accountability. I do not think that COSLA would see the change as a decentralising move in any shape or form.

Derek Mackay: The comparison that I was making is that it beats the option south of the border, where the planning minister or his agents could take control over every planning decision in an authority's area, thereby removing all control and decisions from local elected members. I am not proposing to do that; I am proposing an incentive to improve performance in a way that I, as a former council leader, know will work.

Chic Brodie: I welcome the fact that COSLA is working with the Government. Perhaps the robust evidence that we received from the COSLA representative did not reflect what was intended.

On that point, as the convener will know, the evidence from COSLA states:

"Whilst we are not against national standards per se, we are against the presumption that such national standards can be specified by a national government without clear mechanisms for consultation".

However, that is apparently what is happening. Given the diversity of the 32 local authorities, will you, before applying the fees—which some people seem to view as negative—advise, in working with COSLA, on other approaches that will be used to improve performance, such as transferring best practice between local authorities?

Derek Mackay: Of course, we would rather not have to impose fees. We would rather have the 34 planning authorities—32 councils and the two national park authorities—performing so well that we never even have to consider doing so.

Before we come anywhere close to bringing to Parliament a statutory instrument, which would be required to enable us to use the power, there will, of course, be a period of probing to understand the range of factors—some of which might be outwith the planning authorities' control—and to allow an opportunity for improvement. Such an approach would be natural justice as well as good practice, and I would heartily support it. We will work up that mechanism in partnership with the high-level group, while acknowledging COSLA's opposition.

The markers of a well-performing planning authority exist, and the mechanism can be delivered in partnership. However, we would naturally want to give planning authorities the opportunity to improve so that we do not need to use the proposed mechanism. That is the type of incentivised outcome that we all want to achieve.

The outcomes can be focused on a specific thing that the planning authority has not done. For example, this Parliament has said that, by law—I believe that it is by law, as it would have been in the Planning etc (Scotland) Act 2006—development plans should be less than five years old, but in fact only 59 per cent of plans are less than five years old. We need delivery, and to get that, we need to get serious. The mechanism is a driver for improvement, and will focus minds when we are discussing the need for improvement. That removes the need for the Government to centralise an entire planning service.

Chic Brodie: Do you intend, once you have determined the anticipated outcomes and performance markers, to publish those so that they are open and transparent, and so that we can discern the performance of each local authority?

Derek Mackay: Members should have the draft version of those in their hands right now. If you do not, you will soon. If the high-level working group makes any amendments, I am happy to share those, because we should have a transparent planning system.

Hanzala Malik: I have always believed that planning has a lot of implications for and impact on our environment.

Cost is a factor, time is a factor, and delivering to industry is a major factor, because when industry is waiting for planning, it is burning money. I have seen companies walk away simply because they have not been able to get planning in time; that is a very serious issue in a lot of places. To encourage development, and to encourage construction in particular, planning needs to be on the ball in terms of delivery.

Quality of service and delivery on time are essential. I am not terribly convinced about costings and how we relate those to planning applications. I believe that smaller planning

applications sometimes merit a smaller fee than larger ones. That said, delivery on time is very important; it is absolutely crucial, regardless of what type of planning is involved. I see councils up and down Scotland putting the smaller applications on the back burner, saying that they are not terribly important right now and that they will deal with them when they get the chance. That is the wrong attitude. Applications should be online, and when they are submitted they should be activated immediately. There should then be a time bar—a period within which it should be dealt with, whether for or against. That is important, irrespective of all the other elements that are part and parcel of the whole process.

People need to be confident that, if they put in an application, they will get a response within a certain period. I know that there are limits of 21 days—for activating the planning process and in relation to receiving applications—but I have known people who have waited for six months or more, and that is just unacceptable. The point that I am trying to make is that the bill needs to address that.

10:30

The Convener: That is a little bit wide of the provisions of the bill, but I will let the minister answer.

Hanzala Malik: I understand that ministers are consulting COSLA and that they are trying to work this through. The important point is that the bill really needs to address everybody's aspirations. Everyone should be treated equally when it comes to planning applications.

Derek Mackay: Mr Malik's point about performance is at the heart of what the Government is trying to achieve, and it is certainly relevant in a number of ways. The frustration is that, just as Government needs to do certain things to ensure that we get a proper planning system—as Mr Malik said—so do all members of the Parliament. The last time that I was asked about planning timescales in Parliament, it happened to be Mr Johnstone from the Conservatives who asked why it takes 77 weeks for certain applications to go through the system.

It is about people, leadership and culture, but it is about process as well. Where Government has got in the way of process or has created a bureaucracy, we are trying to take that out through streamlining and simplification. All the goodwill and partnership working in the world might not realise the kind of high-quality, well-performing planning system that Mr Malik wants. That is exactly why I think that that mechanism must be there as a driver to achieve the things that he spoke about.

On fees, I do not propose that smaller applications should subsidise larger ones. Of course, fees have to be proportionate, and there is a scaled fee system at the moment. I do not propose one standard fee for everything. A good system of permitted development, pre-application consultation and elected member engagement, as well as confidence in the system at the outset and a bit of certainty, are all key ingredients of a high-quality well-performing planning system. They are in the Government's planning action plan, and that is why section 41 is so important for achieving that plan and giving it real impetus.

We will do the rest of the work anyway. I cannot guarantee success, but we will try. However, I can say that if there is failure, we will be more empowered to tackle it than we are right now, when all we can do is simply hold back planning fee increases. That does not feel particularly healthy, does it? It does not feel fair that the planning fee across the whole country is held back because it is perceived that some planning authorities are not performing or that the system is too variable. The issues go hand in hand: improved performance with increased fees, moving towards full cost recovery.

Some would argue, as I would, that planning is a public service, but there is an aspiration to move towards full cost recovery so that we can genuinely say that people are getting what they pay for and so that the private sector in particular is happy with what it gets when it pays for it. There might not always be consent—the answer might not always be yes—but people must have confidence in the system and the process. I do not think that that is unreasonable at all.

Margaret McDougall: You mentioned sanctions. You said that, once you have tried everything with an underperforming planning authority, including giving it support, you will then put sanctions on the local authority. In effect, you will fine them. As you said in an earlier answer, the local authority would then have to try to sort out its planning department, basically by putting in more resources and support. Therefore, that hard-pressed local authority would have to find the resources—resources that it does not have—which means that it would have to take resources away from some other service to put them into planning to get it right.

Derek Mackay: You have completely misunderstood the concept, the mechanism and the fee. This is a quid pro quo for increasing planning fees by some 20 per cent in this financial year—the highest amount since the Parliament was created. We need to bear in mind the cost to all applicants.

The quid pro quo has to be improved performance. It is not fair that a planning authority

should enjoy the increase in planning fees but do nothing to improve its performance. That has held back full cost recovery in terms of planning fees. We are not talking about a fine; we are making the link between fees and performance. The crucial question at the heart of your point is that of the planning authority being given a chance to explain and improve. I am convinced that, with that incentive, a planning authority that has not delivered a development plan, improved timescales or engaged in pre-application consultation would improve. These are not necessarily massively costly investments. It is about having the political will to get those things done and it might not require the investment that you suggest.

I also pointed out that timescales are not the only game in town when it comes to performance, but that it takes too long to get too many planning applications through the system. We moved from the arbitrary timescales for minor and major applications of two months and four months to monitoring average timescales partly so that we could get a fuller picture of what is happening in each planning authority.

Holding back fees will not be seen as a fine; it will be seen as an incentive and a driver for improvement. That is the context in which we have been able to increase planning fees, but if we are to increase them further there must be improved performance. Authorities that are performing well should no longer be held back by those that are not. My aspiration is to get 34 out of 34 planning authorities at that level, with greater consistency in delivery, so that we have the kind of planning system across the country to which we all surely aspire.

Fergus Ewing: I absolutely support what my ministerial colleague has said. We must always bear in mind the huge significance that an efficient and effective planning system has for economic development and growth. If we have an effective, swift, fair and efficient planning system that deals with applications in a way that is seen as appropriate and fair by objectors and applicants, after the decision has been taken that developments should go ahead, we will create jobs and business and we will see people getting jobs and opportunities throughout the country.

We must bear it in mind that the link between planning and economic development and growth is umbilical. We cannot consider arcane issues in isolation from our overriding objective of helping people to get jobs, helping business to grow and securing investment for this country—most especially for the young people who wake up in the morning thinking that nobody values them and their contribution. That is important in itself, but it is hugely important for the economy of Scotland.

That is why I am delighted that Derek Mackay has given such leadership in this area.

Mike MacKenzie (Highlands and Islands) (SNP): I will continue on that theme. Do you feel that, in the present climate when we are seeing a tentative economic recovery, a move towards full cost recovery, even if that was a worthy aspiration, that was too quick would risk jobs, the delivery of affordable homes and the prosperity that we are beginning to see emerge and come back into the economy?

Derek Mackay: Mr MacKenzie almost threw me there when he asked whether the planning system was moving too quickly, and then I realised that his question was about full cost recovery. I suppose that civil servants would describe the decision to increase the fee by 20 per cent as bold and brave, considering when it was taken, but it was engineered to try to get that partnership arrangement with local government around delivery on the ground and improved performance. Resourcing is an issue in all that, but the context is quite challenging.

When stakeholders raise planning issues with me, they do not often raise the planning fee. In fact, the costs of appraisals and assessments sometimes dwarf the planning fee. Such costs can run into tens and hundreds of thousands of pounds, so there is an issue there about people being more reasonable and proportionate when it comes to the assessments that are required. Sometimes good practice means having the relevant information to take all factors into account.

The cost of the planning fee itself is not usually what causes a problem for applications—not for the larger applications of the kind that generate an economic impact of scale. There have been previous consultations on the matter. The first consultation, some years ago, was on trying to link the fee to the individual application. It was suggested that if applicants were unhappy they could get 50 per cent of the fee back, but that suggestion did not find support and was dismissed. Then there was a consultation about going to full cost recovery. That would have meant a substantial increase beyond a level that I could have defended in times of recession and financial pressure, and I could not justify it because of the lack of improved performance.

However, with the arrangement and action plan that we have, 20 per cent is justifiable. Future increases are justifiable if we get improved performance, because the private sector and other applicants have said that they are content with increased planning fees so long as they get improved performance. I do not think that that is unreasonable.

The increase will be set in the context of the planning fee as a bigger sum with regard to development viability, because I am mindful of the small application, or the applicant with a minor matter. With permitted development, we have taken much that was not relevant to minor applications out of the planning system, so those people do not have to go through the whole planning process. Permitted development is a satisfactory measure, but I am mindful of the fact that £300 or £400 is a significant sum for a smaller application by a householder or even a small business.

Fergus Ewing: There is another general point. Another benefit of what Mr Mackay has described as a bold move in increasing planning fees is that it makes a contribution to our overall capacity to focus the expenditure of taxpayers' money where we all really want it to go—on ensuring that our schools and hospitals are well funded and able to operate efficiently. The point that I am making, of course, is that if services are provided at less than the full cost, at a heavily subsidised rate—for example, planning fees, bankruptcy fees or court fees, on all of which we have taken action—that subsidy has to come from somewhere. Money has to go to subsidising certain activities, potentially at the expense of core activities. We have to get our priorities right and adopt a sensible approach about moving to full cost recovery in certain areas. However, there are benefits, because everything is related. It means that we can focus taxpayers' money on the real purposes that the people who elected us want us to focus on. I hope that that is an emerging principle that is gaining increasing acceptance across the political spectrum.

Mark McDonald (Aberdeen Donside): I was not a member of the committee during the initial evidence sessions, so I want to focus on sections 5, 6 and 7. One of the concerns that I noted from previous evidence was about whether there would be consumer-led input to the code of practice, or whether that would come as part of the consultation process. Does the minister have a view on whether the view from the consumer angle is feeding into that process or whether that would be dealt with during the consultation on the code of practice?

Fergus Ewing: What particular consumers do you have in mind?

Mark McDonald: Trisha McAuley of Consumer Futures said that the groups that were inputting into the process were linked more to business growth than consumers. I wondered whether the view was that the wider community angle might come through consultation rather than the initial drafting of the code of practice.

Fergus Ewing: We have worked closely with Trisha McAuley in a number of areas, so of course

we want to ensure that we take an inclusive approach to the compilation and drafting of the code. I undertake that I will most certainly consult her and her colleagues prior to the finalisation of the code and get her views on that extremely important matter. Of course, the views of the business community will be important as well. I am happy to give that undertaking in response to Mark McDonald's question.

Mark McDonald: What is the Government's view on how the code of practice will enhance the legislation and the work that is being done through regulatory reform?

Fergus Ewing: I think that it will allow us to work together with all the regulators, which is something that we already do. We spend an enormous amount of time and effort working together as team Scotland, whether it is with SNH, SEPA, Historic Scotland, the planning authorities or a variety of other authorities. That accounts for a huge amount of our time—and rightly so.

10:45

The code of practice will be the offspring of the team Scotland effort. That is the approach that we want to take. We do not want to impose on local government, and we do not want to dictate to local government. Accusations that we do are made daily in the columns of the printed press, but I do not recognise that approach. What I recognise is that day in and day out, week in and week out, we are having serious conversations about serious matters with local government but, often, there is no easy solution.

For example, this week, I co-chaired the fourth or fifth meeting of the opencast coal task force. I pay tribute to the co-operation that we have had from colleagues in Dumfries and Galloway Council, South Lanarkshire Council, Fife Council and East Ayrshire Council. John McNairney has been heavily involved in that work, and Derek Mackay and I have visited several of the opencast mines. The idea that this is other than a team Scotland partnership approach is one that gains a lot of currency in the printed press, but it is the opposite of the truth and of the reality of what happens every day.

Of course, difficult situations arise, such as the problems that we have in relation to opencast mines. However, the correct approach is to have a good, positive, collaborative working relationship with all those who are involved in local government and to talk and work through together what are, very often, extremely difficult issues that face us in public life. I am delighted to have had the opportunity to underscore that point.

Mark McDonald: I thank the minister for his response. He has sort of dealt with the question

that I was going to ask about section 7 but I will ask it anyway. Concern was expressed by Councillor Cook about the enabling power for ministers to amend the list of regulators. Presumably, any decision to amend that list—either to add or remove a regulator—would involve some consultation in advance with partners, such as COSLA or local authorities, to ensure that their input is taken on board before any decision is taken either to widen or to narrow the list of regulators under the power in section 7?

Fergus Ewing: Yes. I am happy to give the committee that assurance. The question is very sensible. The process that the ministers would follow when using the power to amend the list of regulators or the regulatory functions, and whether that process would include partnership discussion with the regulators, are important issues. We would certainly consult COSLA and all other relevant bodies were we minded to consider using that power. That would be the absolutely correct and appropriate thing for us to do.

The Convener: Before another member comes in I just want to ask one question—it might be the final question. My question is for Fergus Ewing. I think that you indicated that you are minded to bring forward stage 2 amendments to introduce primary authority partnerships. Can you tell us what evidence you have gathered about the benefits of primary authority partnerships and what assistance they might provide in relation to economic growth?

Fergus Ewing: I can perhaps give the committee a bit more detail after our analysis of the responses that we have received has been completed. I will do my best to provide more detail, if I can, prior to stage 2. It has been estimated that the UK primary authority scheme delivers net benefits of £19.9 million annually to business and local authorities and generates £3.60 for every £1 of cost incurred. That is one specific answer—there is evidence south of the border that that measure has delivered certain benefits. It is only correct that we should be mindful of that and willing to learn from our good friends south of the border where appropriate—as, sometimes, you urge us to do, convener, in relation to other matters.

To answer the question in a more general way, however, the proposal for primary authority arrangements emerged from business in Scotland. At present, businesses operating in different local authority areas throughout Scotland need to work with each individual local authority. In some instances, that can be time consuming and add to the burden of running a business. It is therefore sensible to explore with businesses and with local authorities through COSLA the operation of such a

system in order to avoid duplicating activity time and time again—32 times, potentially.

If I may say so, my impression—this may change following my study of the full analysis of the responses—is that, where a business operates in a particularly specialised way in a specialised area, it is unreasonable to expect 32 local authorities to be equipped with the full range of specialist advice. If, therefore, a particular local authority has that expertise, it seems sensible to take a pragmatic approach. That would perhaps have the effect of removing the burden on other local authorities and enabling them to get on with some of the other functions that we have discussed this morning.

From a pragmatic, commonsense point of view, it seems that there is merit in proceeding to introduce primary authority partnerships. I alluded to the financial benefits earlier. The results of the analysis of the responses will be published at the earliest opportunity. I initially raised the issue in a letter to the committee back in March, so I am hopeful that we can proceed to introduce the primary authority amendments at stage 2. I will do my best to provide as much information as I possibly can to the committee in advance of that.

Chic Brodie: This may not endear me to the convener or to the minister but I have a question about primary authorities and transferability of best practice. The Minister for Local Government and Planning indicated that we want to make the system more efficient and more timely. Notwithstanding the comments that have been made about potential litigation, has any thought been given to the creation of mediation task forces to try to address any planning or regulatory issues so that we can speed up the whole process without people having to go through the rather lengthy exercise of going to court? I do not expect an immediate answer to that, but I ask you to consider whether that might be a vehicle for speeding up the process.

Derek Mackay: As planning minister, I am happy to offer the services of Scotland's chief planner, John McNairney, in a brokerage role if there are issues where that level of intervention is required. I am sure that he would not object. However, there is an important point about mediation and brokerage sometimes being needed in the planning system. Such an approach is possible already and no legislative change is required for it to come into play in terms of the wider regulatory framework.

I will hand over to my colleague Mr Ewing.

Fergus Ewing: I never took the view, when I was sitting where Mr Brodie is, that it was my job to endear myself to ministers, so I would not worry about that—

Chic Brodie: I included the convener.

Fergus Ewing: Well, I would not worry. However, I did not quite understand the scope of Mr Brodie's question in relation to the matters that I cover. Could he possibly restate it?

Chic Brodie: I do not want to go back down the road of discussing the definition of economic growth and the impact that it might have on regulation or on planning. I am asking whether, rather than people going down the legal route, which can be very costly and lengthy, there is some other mechanism that we might consider through some form of mediation—perhaps a mediation group or task force, and perhaps including Mr McNairney. Such a mechanism might address some of the contentious issues much more quickly than if someone had gone down the legal route. As I said, I do not expect a full answer today.

Fergus Ewing: Do you mean issues arising in the planning system or other ones?

Chic Brodie: It may apply elsewhere, although the planning system is an obvious area.

Derek Mackay: I will come back to the planning system specifically if that is what Mr Brodie is driving at; I am happy to pick that up. If the system is performing well, best practice in a major application, for example, will involve a good pre-application consultation, a good pre-application discussion and early engagement with elected members to see what issues they might be concerned about. That means that people find out about those issues at the start of the process rather than at the end, as some sort of surprise, after time and money have been spent. Good engagement and best practice will, we hope, lead to the right outcomes.

Where there is a difficulty in the system, there is always legal recourse, of course. There is also the appeals system, which is there for a good reason—to have that second look if people think that policy has not been complied with. However, there can be engagement at any point in the planning system. There is no difficulty with a degree of mediation or brokerage to try to move things on, as long as it is in keeping with the rules and due process is carried out, and as long as all parties—applicants and objectors—are dealt with fairly and openly. Best practice for the most significant applications should almost automatically have good pre-application consultation and on-going engagement.

What might be in Mr Brodie's mind are the very worst planning applications that have perhaps been in the system for not just months but years. There are some such cases—in fact, they skew the overall statistics. Frankly, the planning system is not there to test an idea and to keep it warm; it

is there to get a decision about land use—an appropriate decision about the right development in the right place. There are some legacy cases that should be determined or withdrawn; they should not clog up the system.

Brokerage might happen in an attempt to arrive at a decision as to whether such cases should be determined or withdrawn, but they should not stay in the system causing even further difficulties for the applicant, the planning authority and, potentially, objectors. Various processes are under way to support that approach to take some of those legacy cases out of the system, which will also involve a bit of responsibility from the private sector as a partner. However, there are already tools in the box to assist with that. We do not require new legislation around mediation in the planning service—the function exists.

The Convener: With impeccable timing, that brings us to the end of our evidence session. I thank both the ministers for coming along and their officials for attending. If there are areas that we want to follow up on after the meeting, we will write to you to seek written clarification, if you are happy for us to do so.

10:57

Meeting suspended.

11:04

On resuming—

Draft Budget Scrutiny 2014-15

The Convener: We now have something of a change of tune. We are leaving behind regulatory reform and moving on to the start of our scrutiny of the Scottish Government's draft budget for 2014-15. I formally welcome to the committee Peter Wood, who is our budget adviser.

On our first panel of witnesses we have Belinda Roberts, who is the founder of WeDO Scotland; John Anderson, who is chief executive of the Entrepreneurial Exchange; and Professor Sara Carter, who is head of department at the Hunter centre for entrepreneurship. I appreciate that we are in a bit of an unusual situation because the draft budget has not yet been published and will not be published for another three hours so, rather than talk about what is in the draft budget, you will have to say what you would like to see in it.

We have your written evidence, which is very helpful. Would you each like to say something briefly about your hopes and expectations for the budget?

Professor Sara Carter (Enterprise Research Centre): Good morning. I am representing the enterprise research centre, which is a collaborative partnership between the business schools of the University of Warwick, Aston University, Imperial College London and the University of Strathclyde. It is funded by the Economic and Social Research Council, the Technology Strategy Board, the Department for Business, Innovation and Skills and the British Bankers Association to provide an evidence base for enterprise research and policy. What I will draw your attention to is set out at more length in my written evidence but, essentially, comprises five points.

The first point is about growth and the focus on growth-oriented small and medium-sized enterprises, which are important to the economy. Even since the economic decline in 2008, the SME sector has retained a great many jobs, and the number of jobs that SMEs support in the economy has tripled since 1998. The sector is a source of sustained job creation. SMEs and particularly growth-oriented SMEs remain highly important to the Scottish economy.

The second point is that localism is important. By that we mean that there are strong public-supported SME growth programmes, such as Scottish Enterprise's successful account managed companies, but they touch only the tip of the iceberg in terms of the number of companies that can be supported. There is a great need to

augment those national public-supported programmes with local initiatives and to beef up the local ecosystems for business support.

The third point is about diversifying the SME entrepreneurial population and recognising ways of bringing in more women and particularly ethnic minorities to support our entrepreneurial base. Those populations face specific access-to-finance issues. That relates to the fourth point that I draw your attention to. Those populations—women and ethnic minorities—are typically more likely to be discouraged borrowers, and discouragement from borrowing from banks has increased significantly over the past few years.

My final point is that skills and leadership are important. There is a strong link between a leader's growth ambition and a company's ability to grow. Small firms face significant resource constraints on investing in management, so that is another area that I would like attention to be paid to.

John Anderson (Entrepreneurial Exchange): Members will have seen in our written evidence an absolute focus on growth. The Entrepreneurial Exchange was established as part of the birth-rate strategy in the mid-1990s specifically to help people who wanted to grow businesses—I will come back to that under questioning, no doubt—and to share the generic growing pains. It is a peer-learning organisation, so all our evidence is based on the work that we have done as an organisation since 1995.

My personal and professional experience of working with growth companies, investing in growth companies and sitting on their boards is that they form a small proportion of any economy, not just the Scottish economy. We need to get the number up and we need to raise the levels of aspiration. I am happy to discuss that more.

Belinda Roberts (WeDO Scotland): I am the founder of WeDO Scotland, which represents 150 SMEs, most of which are based in and around Edinburgh and all of which are Scottish. The information in my written evidence is based on conversations that I have had with them and on my experience.

I completely agree with the comments that Sara Carter and John Anderson made, but I want to make some other key points. More clarity is needed from the public sector about the available sources of funding, which are not communicated clearly to the SME community. I would love it if a small business adviser were appointed at Government level to support, assist and—more important—engage with the SME community in Scotland. If there were more in-depth analysis of SMEs and what is happening out there, that would be of huge benefit in setting budgets and so on.

I also sit on the board of Young Enterprise Scotland, and I will put that hat on for a second. The modern apprenticeship scheme is extremely positive in itself, but we need to think about the areas that we offer modern apprenticeships in and whether they will provide the skill sets that SMEs require.

My final point is that we need more visibility of SMEs with regard to public sector contracts, and more opportunities for them to bid successfully for those contracts. In 2011-12, only 14 per cent of those contracts were given to SMEs. That was an improvement, but it was only a 0.5 per cent improvement on the year before.

The Convener: I remind members that the session is on the Scottish Government's budget. Our guests have raised a range of issues, some of which are relevant to the budget and some of which are less so. If we can, it would help to stick to issues that are directly relevant to the Scottish Government's budget.

I imagine that all three witnesses will want to answer every question. If they are to do that and we are to get through a decent number of questions, we will need to keep the questions and answers fairly tight. It would help if everyone could bear that in mind.

I will start off, to warm things up. John Swinney will publish his budget in three hours. What would be a good budget and what would be a disappointing budget? What do you want to see in it?

Professor Carter: It is evident from my opening statement that I would like greater support for the SME sector—particularly the parts that have been overlooked. Belinda Roberts made an excellent point about procurement, and anything that we can instigate through the budgetary measures to promote procurement would support SMEs. Another clear issue is access to finance for SMEs. I also want greater support to be given to local and national business-support initiatives to support the SME community.

John Anderson: I will build on Sara Carter's point about the local aspect. On Monday, we had the report from the external review of the Scottish Enterprise account management process. I have seen the changes over the years, and that is a hell of a lot better than it used to be. However, there is definitely still a disconnect between business gateway and Scottish Enterprise. There needs to be a focus on improving on the new shape of business gateway. Some councils have taken the business gateway service in-house, and others are still subcontracting under new contract arrangements.

For me, growth is about choice, as is evident throughout my submission. We have limited

resources and we need to focus them on people who can make a five-to-one return, which means investing £1 in an account managed process to get a £5.20 return, or whatever it is. We need to do that, but there is a disconnect. I know from speaking to Hugh Lightbody, for example, that the situation is still patchy.

The first point of contact for anybody who wants to start a business is the most important. We almost need our best people on the front line. I know that a lot of work has gone into reforming the old enterprise trusts under the local enterprise companies. A lot of that can be driven by target setting as part of the budget process.

There is a limited amount of money—we would like to see more, clearly—and its use needs to be focused. A practical measure would be to ensure that the hand-off from business gateway to the Scottish Enterprise account managed process is such that people are either in the growth pipeline or not. We still see too many examples of someone who is in the wrong part of the system. That is, typically, a human resource issue, which is about having someone in there with relevant experience.

11:15

The Convener: For your interest, we will debate the enterprise networks in Parliament this afternoon. I think that that will focus on the report on account managed companies that came out on Monday, so all those issues will be discussed.

Belinda Roberts: I echo what John Anderson said. From my experience with our members, one of the key issues that they have is being able to identify the myriad sources of funding that are available—the process can involve jumping through 25 hoops. If people succeed in getting through those, that in itself is a bonus.

Another issue that John Anderson raised is the need to look at how relevant the experience of account managers is in the high-growth programme with Scottish Enterprise and to have a better matching process. An account manager might be very good and have an excellent skill set, but if they do not understand the business and do not have relevant experience for that SME, they will be of limited value.

John Anderson: I come back to procurement. I know that there has been a lot of Government attention on trying to reform the system. In the past, the criticism was levied that we were just following European rules. That is easy to hide behind, and I know that a lot of work has been done on that. If the culture changes, that will have a massive potential uplift for Scotland-based businesses.

I sat on the Scottish Enterprise Tayside board when the LECs were being changed and, to be honest, I am quite comfortable that they were disbanded. When the metrics were all wrong in the first place, we were never going to get people to change their behaviour.

I know that from the top down the view is that we must do more and that we need to open up procurement—sensitively, because it involves public money—to the SME base in Scotland. That filters down to a level at which someone says, “Actually, I do not get remunerated,” or, “My performance is not measured in that way.” I know that that involves a journey but, with limited resource, it is the only way to get the best out of the process.

The Convener: The procurement bill that will come to Parliament this session is intended to build on the principle of community benefit and use that as a mechanism to try to award more local contracts. We look forward to seeing that.

I will pick up on what John Anderson said about the disconnect between Scottish Enterprise and business gateway. Scotland’s seven cities are meeting today to agree a joint prospectus to put to the Scottish Government about them taking on more of the role of Scottish Enterprise. Do you have a view on that? Would that be a positive move?

John Anderson: I was involved in the discussions when the minority Government came in about whether we should just get rid of Scottish Enterprise—full stop—and use the money elsewhere, because it is a very big part of the budget. By the end of the discussion with Mr Mather and his mind mapping, we concluded—the people in the room were LEC board members, executives, chief executives, council chief executives and economic development officers—that people worked really well together, so changing things for the sake of it would probably not work.

I was always a fan of the city-region strategy; it just made sense. For me, it was an estuaries thing—we might be in Dundee but have a business over in Tayport that is looked after in Glenrothes, although we can actually see the damn building, so there is an absolute need for reorganisation.

We must bear in mind the strength of the report on the account management process—from experience of sitting on boards around the country, I can say that it is very rare now to come across a poor account manager who does not have relevant experience.

That has taken a lot of change. Maybe I have just been lucky and have just happened to be in the right places but, over 15 or 20-odd years, I

have seen some absolutely shocking performance. I am sorry, but just because someone has been on the training course, that does not mean that they are a decent business adviser. The relevance of the experience to the particular type of business is crucial. I see that most clearly in what was the Prince’s Scottish Youth Business Trust and is now the Prince’s Trust Youth Business Scotland, which has a fabulous volunteer base but which needed a different type of experience for the growth businesses that were being funded through the growth fund.

So long as the principle of relevance of experience is applied to whatever the community of businesses is, I do not care what the set-up looks like. It is important to get the right person—all three of us have said exactly the same thing in our evidence.

Hanzala Malik: Welcome to the committee. Sara Carter said something very interesting about small and medium-sized companies, in particular in minority communities, and she highlighted the fact that funding is not available to them. When the Green Investment Bank gave evidence to the committee recently, it accepted my suggestion that it was not helping small and medium-sized companies. Should the budget include something to encourage lenders to reach out to small and medium-sized companies and encourage them to borrow money and try to enhance their opportunities?

Professor Carter: Yes, very much so. With respect to minority groups in enterprise, we should not consider just ethnic minority businesses. Of course, some ethnic minority populations have a very high participation rate, but that is uneven, and there is certainly the potential to encourage more ethnic minority businesses. Support happens best at the local level and particularly the community level.

There is very strong evidence that such businesses perceive access-to-finance barriers, although the reason for that has not been established. It might just be that their standard risk factors, such as structure, sector, size and business experience, make them a relatively high risk. However, we also know that particular populations are more likely to be discouraged borrowers; in other words, they do not ask banks for business loans or overdrafts because they believe that they will be rejected. Rather than be rejected, they just do not go in the first place. Some ethnic minority business populations have more experience of discouragement than the main stream.

Similar principles operate when we consider many women who start in businesses. They also have high degrees of discouragement and their

businesses have a very different funding profile from that of male-owned businesses. For those reasons, initiatives such as the Green Investment Bank, microcredit and more localism in business support and funding would be hugely beneficial to Scotland's economy.

Hanzala Malik: Belinda Roberts mentioned the option of employing an officer or perhaps a manager to advise small and medium-sized companies. We have agencies that have been given responsibility for doing just that—Scottish Enterprise and business gateway are the two that come to mind immediately. At this committee and the European and External Relations Committee, there has been discussion about how we encourage and inform small and medium-sized companies and organisations to tap into European Union funding. How could the budget help in that? Do you expect the budget to direct funding to those organisations to deal with that issue?

Belinda Roberts: The issue is all down to communication. If people know what they are looking for and where they are supposed to go on the Scottish Enterprise or business gateway website, they are fine. If they do not, the position can be incredibly confusing. I would like more funds to be allocated in the budget to enable those organisations to communicate better what they are doing.

For example, a lot of people are put off by the information that they read about the high-growth programme on the Scottish Enterprise website, because it looks as if it is extremely limited to specific industry sectors. However, when it is broken down, that is not the case. I would certainly like more funding for communication.

Hanzala Malik: I was interested in John Anderson's comments about how we stimulate industry and how we ought to communicate with people. How could the budget assist that process? Who should we target immediately and how should we build on that if we are successful?

John Anderson: My comments might reflect my lack of knowledge of the detail of how things work but, if there is a budget and a certain amount of money to play with, different parties will bid to say, "If you give me that amount of money, I will do this." One of my big problems with the way in which metrics for delivery are reported is that they are too broad.

My submission mentions that the national indicator to

"Increase the number of businesses"

is too broad. Even the definition of an SME is too broad. That needs to be narrowed down, and it will not be about a small number of potentially high-growth technology businesses. To be frank, there

is a bigger opportunity in Scotland to take the existing business base of reasonably established businesses—the businesses with £1 million-plus and 10-plus people, for example—and encourage it to do a bit more.

Behaviour will be changed only if resources to support those businesses are directed through saying, "Here's the budget that we are giving you and here are the metrics that you will be measured on." The metrics are currently too broad. We will not get the granularity or focus unless we take the sort of approach that I have outlined—I genuinely do not know how to do it.

My instinct from spending a lot of time at Highlands and Islands Enterprise and Scottish Enterprise is that there is a lot of analysis of the business base, such as what a company does and how many people it employs. Their databases are really detailed, but we do not seem to be able to get that level of detail and make it something meaningful. Doing that would probably be politically challenging. I live in Perthshire, which has a number of growth businesses. However, in comparison with a city such as Dundee, which has a university and a knowledge-based economy, it is difficult to get growth businesses that can scale up.

That said, there are fantastic food companies around. The penny dropped a few years ago that food, drink and tourism are very important to Scotland. They are areas where we can genuinely have a sustainable competitive advantage. We must look at each of those areas, which maybe comes back to the localisation that Sara Carter talked about. We need to have an ecosystem map of businesses in the community, and there will be businesses that want to grow. I made the point in my submission that there are plenty of people who, when they are put together with their peers, learn from them and say, "Well, if you are doing that—".

Instead of being focused on the big cities, such an approach can be taken in each local business economy around Scotland, but that can be done only if we understand each economy and direct the economic development support, whether down at council level or at Scottish Enterprise level.

Hanzala Malik: I am looking for advice from you on the ground floor about what you would like in the budget to encourage stimulation and encourage small and medium-sized companies to grow and perhaps even look outside the box. We have so much potential, particularly for export; the growth area is now perhaps export to Europe as well as some other places. How can the budget support that? What direction would you like the budget to give to agencies such as Scottish Enterprise and business gateway, which have been given responsibility to support industries? I

do not think that there will be new money, but we probably need clear guidance. What sort of guidance would be helpful?

11:30

John Anderson: I would repeat that the focus is on the outcomes that we expect as a return on investment from the public sector, given the budget. It is probably easier to direct Scottish Enterprise, because it has become very narrowly focused on growth and internationalisation. It knows and understands the business base, which it has segmented. The disconnect is with the local business, which is more likely not to have the same scale or rate of growth.

We have to be honest and recognise that a lot of businesses in Scotland do not want to grow. My overarching point is that we must be honest about the business base. There are 307,770 businesses, depending on the day when they are counted, but the majority are one-person organisations, so we are playing with a relatively small business base. For the non-high-growth businesses at the local level, the question is whether we direct services to them to make them realise that they can grow, because growth is a choice. A lot of entrepreneurs cannot help but grab opportunities.

The bottleneck in Scotland comes from a lot of businesses whose owners went through all the pain a number of years ago of starting a business—those of you who have done that will know how difficult it is—and which have eventually got to the point at which they are stable. The business probably does not have the right experience to take it to the next level, nor does it have a management team. However, the owner might feel that they are doing quite nicely and that they can now have a holiday, because they have not had a holiday for four years.

There is a lot of evidence of families falling apart because of the pressure of starting a business. A lot of business owners take their foot off the gas, for good reasons. There is a group of businesses that are probably readily identifiable, and perhaps directing some services or peer support to those businesspeople will make them realise that they can make a big difference. It is easy to say that we have a big youth unemployment problem and we just need to hire more people. However, the majority of businesses do not want to hire anybody. That is nothing to do with legislation; they just cannot afford to hire anybody.

We should identify a group of businesses that could be encouraged to start taking risks again, without betting the ranch. The question is how we move up a group of steady businesses that are very important to the local economy. From a budgetary perspective, it is probably best for local

authorities' business gateways to identify and focus on particular local businesses. That is happening, but it is patchy. We should say, "Here's your budget and here are the outcomes," and we should stop giving broad support to all SMEs.

Hanzala Malik: So we basically need more managerial support.

John Anderson: Yes. That is about giving direction and understanding businesses. That is where the local bit comes in, because such businesses are important to local communities.

Hanzala Malik: So the current advice providers are not giving enough advice, direction and management skills.

John Anderson: There is a lot of emphasis on start-up, to the detriment of the existing business community, which could be encouraged. I have seen over the years with the Entrepreneurial Exchange that, when people spend time with their peers, they gain confidence from that. They realise that they are not the only person with such problems. As I said, there is a huge emphasis on start-up, which is misplaced.

Chic Brodie: Good morning. I will declare an interest. After having run Compaq joint ventures across Europe, I came back to help start-ups, mentor other businesses and do company turnarounds, so I have a large degree of empathy with what has been said. I say to Belinda Roberts that discussions about the small business envoy started some time ago and are on-going with the Government, so watch this space.

Everything that has been said about business support strikes a chord with me. However, in terms of the budget, over 100 different funding streams are available not just for SMEs but for social enterprises in the third sector. What message would you give to the Government about how it might consolidate that funding? There have been discussions about a social enterprise bank that could draw all the funding sources together to support those businesses. However, the question is also how we decide what businesses qualify not only for access to financial support but for business support, which has been mentioned. My experience out there is that money is just being driven through some small businesses and that it ends up in the pockets of consultants who I would not trust to cross the road.

Belinda Roberts: I agree with that. More and more "consultants" are appearing—a lot are from the financial services sector—who have no experience whatsoever of running a business or, indeed, working in an SME. There is a vast difference, obviously, between an SME and corporate life—it is a big differentiator.

On funding sources, one of the ambassadors on my executive team investigated the number of funds available out there and came up with the figure of 335, so it is interesting that Chic Brodie mentioned a figure of 100.

Chic Brodie: That is three times the number that I came up with.

Belinda Roberts: I keep talking about communication, but I think that it is so important. People are not aware of what is available or of what the criteria are to apply for the funds, which is incredibly frustrating.

John Anderson referred to SMEs, which is such a broad term. We need to break it down and segment it more. I have seen a number of businesses that, frankly, do not have high-growth potential; nor do the founders of the businesses have any desire to grow a business that will have an impact on the Scottish economy.

Chic Brodie: I agree. Just on that, I disagree entirely with John Anderson about Scottish Enterprise. I think that, in terms of its focus, it is doing a great job, as is Scottish Development International. I will come back to that point, if I may.

We know the sectors on which we are focusing—they are largely the life sciences, renewables and so on—but I do not see any cohesion in that. I share some of the views that have been expressed about the business gateway, which should be run by people who understand business and not necessarily by local authorities. I am not saying that local authorities do not understand business, but the point was made that business gateway support is patchy. Should we construct something in terms of connection so that the winners fit in with the national economic thrust, which is relatively successful?

Belinda Roberts: Scottish Enterprise is engaging, but there should be more engagement. I believe that the Entrepreneurial Exchange has more than 450 members. Is that right, John?

John Anderson: We have 400 members.

Belinda Roberts: WeDO Scotland has 150 members. From a personal perspective, I have had no contact from anybody at business gateway level. What are those people doing to engage with the SME community? From what I can see, the answer is nothing.

Professor Carter: Because the concept of the SME community is so broad, as John Anderson indicated, I think that we are in danger of talking at cross-purposes. What we achieve from encouraging start-ups is immensely important. In fact, very small single-person or family businesses that are not going to grow are a very important

part of the Scottish economy. We need to encourage greater diversity and more people constantly coming into the business community and our business base. That is quite a different issue from supporting potentially high-growth businesses. The two issues are completely different, and it is probably helpful to consider them—

Chic Brodie: Sorry to interrupt but, with all due respect, the high-growth businesses have to start somewhere.

Professor Carter: Yes.

Chic Brodie: The question is whether we secure public sector investment through the budget for the potential winners or allow public sector investment to be spread across the ones or twos. I am looking for a structure that will ensure that Scotland is a winner, notwithstanding the constraint that we have because of where our budget currently comes from. I am not denigrating small businesses, but how do we achieve the pipeline and maintain the survival rate and not just the birth rate?

Professor Carter: I agree with what you say but, in order to get the pipeline of growth businesses, we must have a strong business base of start-ups in the first place. I agree with you that that is where they come from.

John Anderson: Perhaps Chic Brodie and I will have another discussion on the issue on another day. I do not think that the committee is the right place for it.

One of the things that excite me is when people come out of the corporate world with the toolkit to deal with scale businesses. The people who I see really driving that include Colin Robertson at Alexander Dennis and Bob Keiller, formerly of PSN, who now runs the Wood Group. They are some of a bunch of people we have met through the Entrepreneurial Exchange who have a great toolkit. They have had the confidence to come out of corporate, take a business and do something with it. That is the big opportunity. However, I do not know how we direct a budget to do that.

It might help if we knew how many reasonable-sized businesses are not growing because they have chosen not to. We have also seen over the years businesses being propped up that should not be there any more, because they have just not changed. A natural churn in a business population is entirely appropriate. However, I see great local businesses around the place that do not know how to grow. If we put them in a room with other people, they will say that they want to do something, but they do not have the skill set because they do not have the toolkit.

For some of the very successful start-ups coming out of the University of Strathclyde business school, we go out to the alumni base of people who have got great corporate experience, having come out of the business school 20-odd years ago, and put them in as the lead. We match those start-ups with corporate experience and real commercial experience with technology. Such mechanisms are already out there, if we can identify the local bases, which I think is a role for the business gateway.

I agree with Chic Brodie about people being involved with businesses who do not have the necessary relevance. As I said earlier, the first point of contact has to be someone who sees the business's potential and understands their role as a signposter. That is what an account manager will do, whether the role is called that, a high-growth start-up programme, or whatever. There will be a person who will look after the individual business owner, but if they just want to have a locally based business and not hire or grow and so on, that is fine. However, to take the PSYBT model, there are different groups of advisers or supporters. That role must not be subcontracted to consultants, which is a point that Belinda Roberts made.

I am holding up a 46-page document on sources of finance that the Scotland Office business base Scotland group is looking at. Basically, it is asking what, given that most of the levers are devolved to the Scottish Parliament and Government, the United Kingdom Government could do. There are a staggering number of funding sources, programmes, initiatives, prizes and grants, but they all have to be managed by someone.

Chic Brodie: That is very interesting; I have probably got the same 46 pages. The European programme for the competitiveness of enterprises and SMEs—COSME—is going to run until 2020 for small businesses. The funding was supposed to be loans, but it turned out to be guarantees—at least in the most recent programme. That project is worth €2.3 billion, but we cannot get to it because we are not a member state. Have you any idea as to how we might augment the budget by accessing that funding for small businesses?

John Anderson: I am not aware of that project, so I cannot comment.

11:45

Margaret McDougall: Good morning, panel. Much of what I was going to ask about has already been covered, but what is coming across clearly is that your budget wish list includes better communication about the help that is already available. On access to finance, there should be not just financial support but management advice from, for example, an adviser based in the

Government who could pass things on. The business gateway performs that role in some areas, but I understand that it does so better in some areas than in others. Obviously, that needs to be looked at as well.

Belinda Roberts suggested that the modern apprenticeship scheme is not necessarily producing the right skills among students. What could be done in the budget to try to improve that?

Belinda Roberts: Having seen the amount of money that has been allocated to trying to reduce the numbers of unemployed young people between the ages of 16 and 24, I know that a substantial amount of money is involved—from memory, I think that it is around £30 million. I have to say that I was slightly surprised to see that some of that budget had been allocated to councils to deal with unemployment. I have no idea how successful that has been but, from the figures that I have seen, that really has not worked in any way whatsoever.

As I said earlier, the modern apprenticeship scheme is a very positive programme and I think that it is great, but it does not address the needs of SMEs. For example, social media is not going away but is becoming an ever more important factor for SMEs. Programmes such as modern apprenticeships should look at the core skills that are required by SMEs in order for them to grow and to achieve their growth potential. As John Anderson rightly said, not all business founders or owners will want to grow their business—that is fine, and I have no issue with that—but schemes such as modern apprenticeships should address the core skills that people need to achieve the potential of their businesses.

Margaret McDougall: Have you been approached to see whether you could offer any places through the modern apprenticeship scheme?

Belinda Roberts: Interestingly enough, I have had absolutely no contact on that. Again, that comes down to the lack of engagement with the SME community. That applies across the board, regardless of what area you are looking at.

John Anderson: I might understand why that is the case for organisations such as WeDO Scotland, the Entrepreneurial Exchange and the organisation that Sara Carter is representing—whatever hat she is wearing today.

I receive a stakeholder update from Scottish Enterprise but only because I pointed out that the 400 or so members of the Entrepreneurial Exchange are an unusual bunch, in that they are all ambitious—although they are making some mistakes—and are growing their businesses very quickly. I was told that larger businesses will be members of CBI Scotland and smaller ones will be

members of the Federation of Small Businesses or a local chamber of commerce, but that is not the case.

I was approached by Glasgow City Council about the Commonwealth games apprenticeship scheme. I was told, "Here is the plan. Could you make people aware of it?" My job is a signposting role, so if something interesting comes in that I think could benefit our members, I will push it out to them. That is probably the only time that I have had a direct approach from an agency that is trying to reach our market.

I have a strong dialogue with Scottish Enterprise, given that we should be able to map membership of the Entrepreneurial Exchange with SE's account-managed firms because we both deal only with growth firms—we should be a perfect match and we are on that journey. However, we are all busy, so we are not going to sit there and try to find out about such schemes. For sourcing information, I hope that the Scottish business portal's new finance hub—I hope that I have got the terminology right—will act as a magic single source that should allow us to find out everything. However, we will see whether that works in practice. An interesting question is whether the organisations that are promoting modern apprenticeships are talking to the right people.

Margaret McDougall: Does Sara Carter have anything to add on that?

Professor Carter: We understand that there are benefits not just from providing modern apprenticeships but from encouraging students in further and higher education to engage with small firms. The purpose of that is not just to help the small firm to grow by undertaking projects and adding more capacity to the business but to engage young people so that they know what it is like to run a business. Such placements are almost a training ground for the new entrepreneurs of the future. Any kind of learning that takes place in SMEs, whether through the modern apprenticeship scheme or through further and higher education students engaging in placements and projects in local companies, will also help to strengthen the pipeline for the future.

Belinda Roberts: Our company programme, which Young Enterprise Scotland runs in schools throughout Scotland, had its awards dinner in June. Every year without fail, that is a motivational and inspiring event to attend because you see these 16, 17 or 18-year-old kids who have been given the basic training on how to start a business, write a business plan and run the business and then close it down. The young people who come through that are phenomenal. Again, there is not enough communication on that from those who should be talking to organisations such as Young

Enterprise Scotland. As a charity, we have limited funding available for going out there and doing the engagement. From all our perspectives, I think that it is fair to say that we are more than happy to engage with anyone but we have limited resources and time, so it would be nice to see a little bit more of that coming from the other side.

Margaret McDougall: On communication, what do you suggest that the Government could do to communicate better with SMEs on what support and access to finance are available?

John Anderson: The use of role models and case studies—I have been doing role models since the mid-1990s—is the way to do it, so that people have an example. Notwithstanding the move towards social media, the power of the local press in Scotland is immense. For example, a local business might be mentioned in the *Perthshire Advertiser* if it features in the Perthshire Chamber of Commerce star awards and there is a reasonable amount of activity around it. If you are trying to promote a particular programme of growth, you could illustrate it locally with an example that other businesses will know and recognise, so that there is a peer-group effect—we are into peer-group learning, obviously, but this is a slightly different way of doing that.

Rather than launching another outbound source or initiative, which is typically what has happened over the past umpteen years, we could illustrate an idea with a real local business. We should build up the base so that there are role models for different sizes, sectors, genders and whatever. The use of role models and case studies is a very cost-effective way of doing that.

Margaret McDougall: And social media might be used as well.

John Anderson: Yes, that will come, although I am too old for that stuff.

Mark McDonald: I have a brief supplementary question on what Margaret McDougall asked about—I know that I have my name down for another question, so I am not seeking to queue-jump.

On the issue of modern apprenticeships, obviously the channels of communication need to be two-way. Do you have any indication from the companies that you represent how many of them would be either willing to take on a modern apprentice or interested in doing so? Obviously, that data could then be fed to the Scottish Government to give it an indication of the appetite that exists within the organisations that you represent or deal with on a regular basis?

Belinda Roberts: Probably 50-plus per cent of our members would be interested in doing so.

Mark McDonald: Have those companies approached you about how to get involved in the scheme?

Belinda Roberts: We are similar to the Entrepreneurial Exchange—albeit that we represent the smaller end of the SME community—in that our members are just not approached on things like that. Our events are all about sharing knowledge, ideas and experiences, and that topic comes up a lot. Our members are just not being made aware of those things or being approached about them. They would be very positive and, in saying that, I am genuinely representing all our members.

Mark McDonald: Have any of your membership organisations or companies taken on a modern apprentice?

Belinda Roberts: No, none.

John Anderson: I do not have the data on the number involved—as Belinda Roberts said, the Entrepreneurial Exchange members tend to be at a slightly more advanced stage—but my experience from sitting on boards of companies that are account managed is that the account manager in Scottish Enterprise is doing that signposting. That is a big change, which comes through in the report and will, I guess, be debated this afternoon. Over the past probably five years, the approach has changed from, “Here’s a product that I think you would want,” to, “What are you trying to achieve here? I will be the signposter within the public sector to support economic development and provide support in finding the right things.” It may be that a modern apprenticeship is the right solution for some of our members. I suspect that if we asked our members whether they are interested in the modern apprenticeship scheme, they would probably all be aware of it, but I have not tested that. That would be an interesting project.

Mark McDonald: Does Professor Carter have anything to add?

Professor Carter: On the budget—this is not about modern apprenticeships—as someone who is significantly involved in undergraduate and graduate populations, I think that one of the most pleasing things that I have seen over the past couple of years is the reinstatement of the graduate placement programme for SMEs. Under that programme, we do much of the training to support those graduates going into SMEs in the Highlands and Islands Enterprise and Scottish Enterprise areas. That has been an important development not just for the graduates but for the businesses because of the capabilities that those graduates can bring. The reinstatement of that programme was important and significant, and I would certainly like to see that continued.

The Convener: Four members still want to ask a question. I am conscious of the time, so it would be helpful if people could tighten up a little on questions and on answers. Obviously, if we can retain our focus on the budget, that will also be useful.

Mike MacKenzie: In the context of a falling Scottish Government budget, it is highly unlikely that the budget for Scottish Enterprise or the other enterprise agencies will be doubled or quadrupled, although they may be doing much good work. Therefore, if we are to improve matters, we will need to think about doing things differently.

Is there perhaps scope for the enterprise agencies—or the Government itself—to act as a catalyst? The single biggest problem that I get in my inbox from businesses, particularly small businesses, is the availability of finance from traditional high street banks, which are just not interested in talking to businesses. I am talking not about start-ups but about long-in-the-tooth businesses that have survived the recession and now want to move ahead. The issue is not that the banks are analysing business plans and finding them wanting but that they are not even talking to businesses. Businesses cannot get in the door.

However, we are led to believe that big businesses are cash rich and are not spending that money because of lack of demand, while savers are getting 0.5 per cent interest if they are lucky. There seems to me to be a disconnect somewhere. Could we provide a pipeline between the cash resources that are still about and the people who want to use them? Could the Government or the enterprise agencies act as a catalyst? We need to introduce something that is a bit of a game-changer and think outside the box. I would be interested in hearing any ideas that you have along those lines.

12:00

The Convener: You were nodding, Professor Carter.

Professor Carter: I was just agreeing. I wish that I had some great ideas about this but it seems that the organisations with the most cash are the ones called banks, and they are not doing their job properly with regard to funding and supporting long-established businesses with a good track record. In that respect, I completely sympathise with the disconnect that Mr MacKenzie has identified.

Off the top of my head, I think that it is important to have more partnering and partnership working. There might also be the possibility of a quite radical innovation to guarantee sources of funding and loans. Indeed, we tried that very successfully in the past through the loan guarantee scheme

and perhaps we need to introduce a different version of that for these cash-strapped businesses.

John Anderson: One of the things that we suffer from today is the enterprise finance guarantee scheme, which killed off an outstandingly good small firms loan guarantee scheme. We understand that the move was politically motivated; there were nice soundbites at the time about the banks not being ready. We know all that detail. However, the problem that does not seem to have grabbed anybody's attention is the guarantee element. Under the old small firms loan guarantee scheme, you could not grant security against your matrimonial home, but under the EFG that is mandatory. Who thought that up? That is an absolute barrier. The political soundbite from London of, "We're here to help," has just not been delivered.

You have two things happening. First, you have banks that have just got a right kicking—in many cases, for good reason—and will never take a risk again and this mechanism has been put in place so that they are seen to be helping. We need some other form of guarantee scheme. Can we not have something in Scotland that is not about throwing money away or going back to easy lending to businesses that do not deserve it? I would support a piece of work around that just to see what such a mechanism might look like.

Secondly—and to go back to Mr MacKenzie's point—large corporate is sitting on piles of cash. I do not know enough about the detail, but there is a new organisation called, I think, Eureka comprising guys who have come out of the Edinburgh fund management system. I have seen only an overview of their product, but it seems to incentivise large corporate to pay its bills early rather than when they are due or when those companies normally pay. We saw the beginning of this almost five years ago to the day when Tesco, which used to pay its suppliers in 14 days, moved to paying in 75 days. It was a case of, "That is our change of terms—take it or leave it." If we incentivise the big guys to pay early, it helps to put cash out there, which is the vital thing. If they pay suppliers early, the supply chain benefits. There is a cost to big companies but there must be a business model for the Eureka thing, or the people involved would not have launched it.

We must find a mechanism for releasing the cash that is sitting there and moving it into the supply chain. It is just a very practical way of helping businesses. The fact is that very few businesses have world-class working capital management. As far as financing growth is concerned, unless your working capital is very well organised, every £1 of extra sales will need 50p cash.

The banks are beginning to open up; indeed, we have quite an active partnership with one in particular. It is not like the bad old days, because the bad old days are why we got into the mess that we are in. However, the reality is that this particular mechanism is not there and, as a result, you have to focus on the boring stuff. Entrepreneurs are not very good at focusing on boring stuff like cash management and brilliant working capital management, but that is absolutely part of all this. Releasing cash that is sitting on big companies' balance sheets would be helpful.

Mike MacKenzie: Can I quickly move on to another area that you touched on?

The Convener: Before we leave the question of finance, Mike, I would like to ask a quick follow-up. Is the Scottish loan fund underperforming? If so, why?

John Anderson: I have been asking that very question. I cannot understand why you have this huge sum of money that is not being spent. I know the business base and the growth areas in Scotland. Is it because the loan fund is the wrong product, or is it because of the provider? It has been subcontracted out to Maven Capital Partners and I do not know how it is being managed. It is very odd to have 10 investments—I think that that is what I quoted, although the website says that there are a few more in the pipeline.

On the other hand, the business growth fund is going like a train and is doing some really interesting stuff. There is a lot of money tied up in the Scottish loan fund, and someone is basically sitting there being paid to look after pots of money and doing nothing with it. I would certainly look at that.

The Convener: Thank you.

I am sorry, Mike—please carry on.

Mike MacKenzie: The other thing that has been touched on and which I would be interested in hearing a bit more about is the idea of localism or local initiatives. Given that local authorities now run the business gateway, do you feel that they could do more than simply run the bare bones of the business gateway service? Is there more that they could do to assist business more generally?

Professor Carter: Yes. The business gateway operates at a local level, but it is not really adapting its product and offering to local services. Instead, it is offering almost a one-size-fits-all approach. That said, the business gateway is, of course, very important, and we are all enormously grateful that we still have it, given the fact that this kind of business support has withered away south of the border. First of all, therefore, we should say that it is doing a good job.

What is more important for localism is that we give space to new initiatives, be they for ethnic minority business owners, young people or community-based organisations, and that we acknowledge the importance of local initiatives that are really at the grass roots and which understand and are part of the local business ecosystem that John Anderson defined earlier. I think that that would be a very important complement to the provision of the business gateway.

John Anderson: There are great examples of that in Youth Business Scotland. When Geoff Leask was running the operations of what was then called PSYBT, the regional managers in each of the 18 regions were in many cases physically based in the business gateway. The referrals were first class and the support was brilliant. Each region had its own ecosystem map; I borrowed that concept for an ecosystem map for entrepreneurship in Scotland with the myriad areas of support, funding and all that kind of stuff.

It is quite a complex thing that the Government is working on with the entrepreneurship economic innovation framework. Perhaps the head of economic development, whoever that might be, should take control in each business gateway service and properly map out the ecosystem.

I am seeing a lot more collaborative working. I have just come off the board of Stirling University Innovation Park, which is owned partly by Stirling Council and partly by the university. The partnership working there is absolutely brilliant; in fact, it is now saying, "We have a similar set of buildings over at Stirling enterprise park and a similar thing elsewhere". Rather than there being lots of things just because they have always been there, there is now a co-ordinated approach and a willingness, driven in the main by the chief executive, to change structures and do things differently.

That said, I would be pushing a bit harder in that respect. If the innovation park mapped out the ecosystem, it would see that certain businesses are looking—rightly—to get the support of a Scottish Enterprise growth programme or an internationalisation programme, but probably the majority are not. Again, this comes back to the issue of limited human resource. A number of programmes are already running, but maybe we should close down the programmes that are just not delivering any more. Of course, that is often quite an unpopular move, because it affects people's livelihoods.

Belinda Roberts: Interestingly, the City of Edinburgh Council approached us two weeks ago to ask whether we would be interested in sponsoring its applications competition, which, as you are probably aware, is for people to develop

apps to improve life in the city. I am sure that there will be some very interesting submissions to that. I felt that it was a really positive move, but it was interesting that it came from the council, which runs the business gateway, and that there was no contact from the business gateway itself.

Joan McAlpine (South Scotland) (SNP): I will return to Professor Carter's point about women's participation. I was struck by the very interesting written evidence from the enterprise research centre and the fact that, if women's participation in business ownership equalled that of men, there would be a 32 per cent increase in Scotland's business rate. That is really quite staggering when you think about it.

The submission goes on to suggest reasons for that situation, and indeed I know that Professor Carter has talked about women being discouraged borrowers. Is there evidence that banks are discriminating against women? Given that the banks are publicly owned, what can we do about that?

Professor Carter: I appreciate the question, because it is really important that we draw attention to the role of women—who, to a very large degree, are a missing element in Scotland's entrepreneurial population—and the fact that we are significantly underperforming in this regard relative to our international peers.

I represent the enterprise research centre and was responsible for working with the Scottish Government and chairing a number of workshops, a couple of which were attended by John Swinney, on how to encourage more women into enterprise in Scotland. The first step on that journey is to outline the economic case for women's participation in enterprise, which is what I have tried to do in my written evidence. It is taken from the draft framework on women in enterprise, which is currently out for consultation, and I sincerely hope that we will see some reference to that in this afternoon's budget.

As for your direct question, there is no evidence that banks discriminate against women borrowers. Many have looked for it but have failed to find it. There is, however, evidence of debt avoidance by women. When women start in business, they use about one third of the starting capital used by men. That is not just because they operate in different sectors: we see the same bimodal profile of funding when we control for sector, age and location.

There is a significant effect on access to finance for women, but we cannot attribute that to bank discrimination. Indeed, it would be hard to think what banks would get out of that. As a result, I do not believe that this is about bank discrimination but the fact is that there is a large degree of debt

avoidance among women. Women are a poorer population and issues of risk and debt affect them at an earlier stage.

As John Anderson has mentioned, there is also an issue of role models and networks and the lack of appropriate female role models of entrepreneurs and business owners in Scotland.

Women who start up in business also need to be trained about the importance of financing their businesses appropriately at the outset, because one key issue is that businesses that are undercapitalised at start-up go on to underperform further down the line. The finance elements are very important and there is a very strong gender dimension but, as I have said, this is not simply about the banks. Women and business support services need to be encouraged to do more training and to be more aware of the importance of initial capitalisation.

Joan McAlpine: You have been extensively involved in the question of what works. Are there any past schemes that have worked and which have addressed the psychological barrier to women borrowing the capital they really need to be successful?

Professor Carter: Absolutely. Although many women business owners dislike the idea of gender-specific business support, there is certainly evidence to suggest that such business support works if it is available as part of the localism issue that we have already talked about.

In the United States, for example, the Small Business Administration introduced business support agencies for women. These agencies, which have been running for decades, are now in every state and do not simply provide a service for women; in fact, about 20 per cent of their customers are men, simply because they like the kind of support and encouragement they get.

We know that the provision of a particular form of support is helpful for women, but most people would say that, if the current business support from the agencies was good, women would participate as well. There is also evidence of a little more need on the part of women in this respect, especially if our intention is to increase the number of women entrepreneurs and women who start businesses in Scotland.

12:15

Joan McAlpine: Lastly, one aspect of the economic strategy that seems to have worked is focusing on growth areas. Are there particular growth areas in which women excel that we should be focusing on?

Professor Carter: There are two areas in which there is a great deal of optimism for getting more

women involved in business ownership. The first area covers the liberal professions: we are seeing an increase in the number of women who are training in accountancy, law or medicine. In some respects, those professions naturally lead to professional practice, so we are seeing significant growth in women's participation in the liberal professions, as in private practice. The second area is the growth of personal services, in which there seems to be a very high representation of women-owned businesses. There is cause for optimism, but only if we look after it, nurture it and provide the support that is required.

Alison Johnstone: We seem content to give large regional selective assistance grants to companies such as Amazon. However, despite the fact that—as Professor Carter's paper points out—the majority of jobs in the UK are created by small firms, it seems that there is not the same recognition or the same sort of one-stop shop that is needed.

We are hearing about a disparate collection of entities that can help—but only if people know where to find them. It seems that we are missing a big opportunity. I am also concerned about whether, when a business comes to you, there is the expertise to be able to ascertain immediately whether or not it is a high-growth business. The more lowly businesses seem to be headed towards the business gateway, and the others seem to attract a great deal more support. Perhaps we need to focus generally on whether we are doing enough to help.

Mr Anderson, you argued in your paper that we should just do away with the term "SME" because it is meaningless. Perhaps we should have a small business champion and a medium-sized business champion, and within that a champion for women. We should also look at procurement. There are some simple, obvious steps that we could be taking but are not. I am particularly interested in how start-ups are labelled at the very beginning and perhaps thereby limited in their ability to grow. Is that happening to any extent?

John Anderson: I would be surprised if that is not still happening. As I said earlier, we really want to put the best people as the first point of contact: people with the experience to be able to ask the right questions and—depending on the understanding of the sector, the aspiration of the owner and so on—to make the call on where to go next and where to do the hand-off.

The old structure involved a local enterprise trust. Businesses went there if they had fewer than 25 employees—I am going back a long time—and they could just be stuck in the wrong place. It is like being in a bank: someone could start off in retail banking because they open a bank account in their local branch, and then they grow their

business and are moved around, and very often they become stuck in the wrong place.

I spend a lot of time with our members who say, "My bank doesn't understand me." I say, "Well, it's just because you're in the wrong place—you can go up the line, and I've got the right contacts to be able to find people who can fix it."

Alison Johnstone used Amazon as an example of a business that receives regional selective assistance. A fantastic role model is Petra Wetzel—you will probably know her—at WEST brewery in Glasgow. Around £10 million was invested in the new brewery, and it received just short of £2 million of regional selective assistance. That is exactly the type of business that we should be—and clearly are—supporting.

Petra Wetzel is a great role model—a lawyer, interestingly—who, due to circumstances, had an interesting toolkit to enable her to take something and have the aspiration to grow it. That comes back to Sara Carter's point about role models. The starting point is that someone wants to do something and wants to have the confidence to do it.

We have only to look at the number of women who are coming through the Hunter centre on the BA in business enterprise. They will not all start a business as soon as they leave university—in fact, we would probably argue that they should not, as they would do better to go off and plan their entrepreneurial career. However, if we want to get them even to think about doing that, they have to realise that they can do it. If we put examples and role models in front of them, they think, "Well, if they can do it, I can do it."

That brings us back to the need to identify role models—Scotland is full of them—at different levels and in different sectors, with variety in gender, stage of growth, rate of growth or whatever it might be. When someone comes in, we can make a judgment about whether they look like one role model or another.

Alison Johnstone: Being "stuck in a rut" seems to be a bit of an issue for women. If we look at the top 12 modern apprenticeships, we see that they are severely gender segregated. Women are still drawn towards work that unfortunately seems to pay less in the long term, which has an impact on pensions and so on. We just do not seem to be succeeding at getting the message across, even at apprenticeship level. We now have a new and very exciting field in which young women could get involved, but they seem to be missing out even more. What do you suggest that we do, Professor Carter?

Professor Carter: It is a tough nut to crack, and Scotland is by no means the only country in which it is a significant issue. We can see the loss to the

economy from women's lack of participation not only in enterprise but in science, technology and innovation. There is no immediate reply that I can give. However, I believe that women need to have a sense of being included and counted, and we need to ensure that they are economically astute about the choices that they make regarding whether or not to work. I have to say that there is still a very conservative tendency in Scotland that encourages women to underperform, which is a problem not only in entrepreneurship but more widely in other areas.

Belinda Roberts: To go back to the business gateway situation, I have an example to give. One of our members is under 35 and has a very young family; her youngest child is only a year old. She launched her new business a year ago yesterday. She went to the business gateway, where she got some assistance, and she now has an e-commerce business. She had projected sales of 300 of her products in the first quarter of trading because she wanted to catch the Christmas market, and she actually sold 3,000 products. Her adviser at the business gateway had said, "Yes, that is quite an interesting little business idea."

Mark McDonald: I am detecting from our discussion that the committee might want to look in future at the role of women in the Scottish economy, as it certainly seems to be a prevalent and very interesting part of the discussion.

I have one question on your evidence, Professor Carter. I am not attempting to underplay the issue in any way, because it is very important, but have you looked behind the numbers to see whether there are any issues? I do not mean that the figures are distorted, but—for example—a family business may be identified as male-run because it was set up in the name of the husband, even though the wife may be very active in that business. Such situations may play a small role in some of the figures that we see, and that should be looked at further.

When we debate the budget this afternoon, we will be looking at the high-level distribution of funding to various agencies and organisations. A lot of the points that are being raised here today relate more to how those organisations distribute the funding, and the ethos with which it is being used.

Does Government need to give a different direction to those organisations, or do they simply need to understand what their role is and what they should be doing with their funding to encourage and help small and medium-sized businesses in Scotland?

John Anderson: As I said earlier, there is limited funding, and we will not get a doubling of the budget, so we will just have to do more with

less. We could perhaps be more directive, although the roles are already pretty well defined and I do not sense any appetite out there for a wholesale change.

We could highlight the opportunity—let us call it that—to shift the emphasis slightly away from start-up, and focus on local business space by targeting local authorities and the business gateway to come up with a plan to help the local economy.

Having lived through the Stirling experience, I know that there is great analysis of the local business base and a great and detailed understanding of who wants to use those businesses. Local businesses are involved in what would in the past have been an elected board but is now a sort of business panel. I know that Fife is working on that at the moment, because one of my board members is part of that process, and there is a demand for further dialogue. There is a willingness in that regard.

Local government in particular may want to bring in outside help and advice—not paid for, but on a voluntary basis. We are working with a number of the SOLACE chief executives on a couple of projects. It is nothing to do with entrepreneurship and business creation; it is just about bringing in a different mindset that is driven by a chief executive who wants to change the way in which the management team operates, given that they know that their overall budget is coming down and that they have to do more and reorganise. It is about an openness to engage with a different mindset. I do not know how you write that into a budget, of course, but it is powerful.

Professor Carter: In response to the question, it is a little bit of both: it is partly about encouraging existing providers to think carefully about how they encourage more people to participate and how they represent themselves and the service that they provide, but it is also about providing an additional local community base, whether that is for women or for particular social areas or whatever. We need a complementary mix of large scale and local.

Mark McDonald: You made some points on expansion and growth, which ties into our discussion on some of the legislation that is coming through. You have spoken about the one-person organisations that probably do not want to grow or expand, but some of those organisations will want to. It could be as simple and straightforward as somebody who owns a burger van and wants to have more than one in the area or areas in which they operate.

Do we need to make it easier for those people to get their business to grow, through not only the support that they get but the regulations that apply

to businesses—and small businesses in particular—in order to ensure that, when they want to expand, the support is there not only as a cash injection but through the regulatory regime?

Professor Carter: Undoubtedly. Many businesses perceive vast barriers because of their lack of understanding and the complexity of the regulatory background, a lot of which concerns employment. Procurement, too, is utterly baffling to many small business owners. A constant alertness to regulatory reform would be helpful for many business owners, as would a simplification.

Mark McDonald: We often hear about small and medium-sized businesses in Scotland being taken over. That is sometimes—as you have identified—the aspiration of the person who has established the business, because they would quite like to sell it on and then retire to the golf course and so on.

Is there enough support not only for those companies that are being taken over, often by non-indigenous companies, but for companies that want to grow and expand their business by, for example, taking over other businesses?

12:30

John Anderson: That is probably my area. There are a couple of angles on the issue of selling out. One is where a business has no succession planning: it is a traditional business that has been there for a long time and is almost entirely owned by the family; no one wants to come into the business and someone wants to retire so it has to be sold. In fact, it does not have to be sold because employee ownership, which is a fantastic model that we will hear much more about, is a great way of protecting corporate Scotland and the country's company base. There are some great examples of how people are doing that.

If a business owner has taken in external equity investment from a business angel or a venture capitalist, they know that they are on the journey to sell until their exit or the exit for the investor—they need to understand what the investor's objectives are when they take money from them. We do not have a great track record in taking companies through to the Intellectual Property Office and floating them on the London stock exchange or AIM. I have just left the board of an AIM company, and I completely understand why no one wants to go on it, but that is another story for another day.

Growth needs finance, and Scotland is blessed with a robust business angel community—in fact, it is far more robust than in probably any other part of the world. It is mature and there are lots of new groups; we have just established a new one at the

University of Strathclyde for spin-outs. There is some great stuff, but the venture capital community hates working with business angels.

I have one plea; I have asked Nesta to look at this and I will ask anyone who cares to listen. Is there a mechanism that will enable us to make the transition from the very successful business ownership base of the business angels in Scotland to venture capital? I would like to get a bit of resource to investigate that.

I sat with a guy yesterday who owns a business that has been one of the successes of Intermediary Technology Institutes Scotland, which is interesting, given all the negative coverage. He licensed a piece of technology from ITI, taking money from a very well-known angel group. I warned him that, if he has the opportunity to build a seriously big global business and needs to go for serious money—£5 million to £10 million—to do so, he could find it difficult to negotiate two years down the line.

Is there a vehicle that could help? It could be part of the Scottish Investment Bank, or a fund that tidies up the share register to provide a suitable exit for the business angels at the right time. The business angels are all stuck: they have run out of money, and they need exits to allow them to do more deals and to leverage—one hopes—some degree of success. The problem at the moment is that, when venture capitalists come along, there is no one else who is likely to fund the business and so they have the upper hand in the negotiation. All the business angels are going to do is get hammered, and—guess what?—they are not going to do the deal.

There are a whole bunch of living-dead companies in Scotland. The Scottish Investment Bank has 270 or 280 businesses that are asking what the next step is. If we had someone in the middle cleaning up, and giving a reasonable return to the people who took the big risk at the early stage along with the founders, we could get them out of the way and bring in some venture capital at a sensible rate. At present, unless there is something sitting in the middle, that process could not be negotiated. It does not matter how good a business's advisory team is; they would not be able to do it.

Mark McDonald: You used the term “living-dead companies”, which could be taken out of context. To define that term, it refers to businesses that are at a stage where they either need to be sold on or to develop some sort of employee ownership, but are unable to realise the capital in order to be able to do some of the things that you are describing.

John Anderson: Yes, I realise that it is a pejorative term, but it is the term that we use in the

community. Those businesses do not have the opportunity to grow because they cannot get access to the next round of finance.

The issue with growth by acquisition is that, in many cases, it comes back to the question of how, if you have a sizeable business that has stopped taking risks, you can get it to grow. There will be no experience on the board or among the management team of making acquisitions or of running a multi-site business: turning one burger van into two burger vans and that type of thing.

I saw that with the Prince's Scottish Youth Business Trust. If someone had one van and wanted to go to two, or to go to a second unit or a shop or whatever, that required a different type of funding—hence the development of the growth fund—and a different type of adviser who could say, “Well, you can't be in two places at once.”

Much of the problem relates to the dearth of skills and experience in the growth arena. We are working very hard at the Hunter centre to develop training—continuous professional development, if you want to call it that—for businesses that want to grow. I genuinely believe that, with role models and peer support, people can suddenly realise that they can do something. If we put in place the right mechanism, we can transform the economy.

The Convener: We have a final question, and I ask for very short answers—one word might do.

I ask each of you to imagine that you are John Swinney, and you have woken up this morning and found £1 million under the bed that you did not know that you had. What would you spend it on—or which tax would you cut—to maximise economic growth?

Professor Carter: Sorry—this is more than one word, but I will be really quick. I would spend it on providing community support for particular groups. We saw the launch in Parliament last week of the African business forum Scotland; women and ethnic minority businesses are a population with real needs.

John Anderson: Building on the previous comment, I would spend it on skills for growth, a programme that would not be delivered by consultants who mark up everything at ridiculous rates but which would involve some kind of knowledge transfer. It has to be new: if we put another £1 million into what we are doing at the moment, it will not make any difference.

Belinda Roberts: I would go with Alison Johnstone's earlier suggestion that we break down the SME side of things and put in dedicated resources to support small businesses, medium-sized businesses, women in enterprise and so on.

The Convener: Thank you very much—you have been very helpful. I am grateful to you for all

your contributions and for answering our questions. We look forward to hearing the budget this afternoon and finding out whether John Swinney has been listening in to our meeting.

12:37

Meeting continued in private until 13:05.

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