



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Jobs and Fair Work Committee

Tuesday 27 February 2018

Session 5



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ECONOMY, JOBS AND FAIR WORK COMMITTEE
7th Meeting 2018, Session 5

CONVENER

*Gordon Lindhurst (Lothian) (Con)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

Tom Arthur (Renfrewshire South) (SNP)

*Jackie Baillie (Dumbarton) (Lab)

*Colin Beattie (Midlothian North and Musselburgh) (SNP)

*Kezia Dugdale (Lothian) (Lab)

*Jamie Halcro Johnston (Highlands and Islands) (Con)

*Dean Lockhart (Mid Scotland and Fife) (Con)

*Gordon MacDonald (Edinburgh Pentlands) (SNP)

*Gillian Martin (Aberdeenshire East) (SNP)

*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Sarah Deas (Scottish Enterprise)

Dr Stuart Fancey (Scottish Further and Higher Education Funding Council)

Linda Hanna (Scottish Enterprise)

Gordon McGuinness (Skills Development Scotland)

David Oxley (Highlands and Islands Enterprise)

Nora Senior (Strategic Board for Enterprise and Skills)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy, Jobs and Fair Work Committee

Tuesday 27 February 2018

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Gordon Lindhurst): Good morning, and welcome to the Economy, Jobs and Fair Work Committee's seventh meeting in 2018. I ask everyone, especially those in the public gallery, to check that all electrical devices are on silent so that they do not interfere with the proceedings.

Agenda item 1 is a decision on whether to take items 3 and 4 in private. Do members agree to do so?

Members *indicated agreement.*

Scotland's Economic Performance

09:30

The Convener: This morning, we continue our inquiry into Scotland's economic performance. We have as our guest Nora Senior, the chair of the Strategic Board for Enterprise and Skills. Good morning to you, and thank you for coming.

I remind members to keep their questions succinct. Ms Senior, if there is any issue that you feel you have not been able to cover adequately, please feel free to submit written information to the committee after the meeting. The microphones are operated by the broadcasting team, so there is no need for you to press any buttons.

I start with a general question. Can you give us an update on the development of the strategic board?

Nora Senior (Strategic Board for Enterprise and Skills): The strategic board, which was formally brought together on 13 December, has met twice. At our first meeting, we focused on the prevailing economic context in Scotland, taking into consideration Scotland's economic strategy, the growth commission, the Scottish Fiscal Commission and the national performance framework, and looking at the gaps between the performance of Scotland and other Organisation for Economic Co-operation and Development countries. In effect, we were looking at the policy and political context in which the agencies operate. In addition, we received an overview of, and an insight into, the work of each agency and its particular areas of intervention. It was felt that that was necessary, as our board members come from a diverse range of businesses and other sectors and we all need to understand the framework and agenda to which Scotland is operating.

The second meeting, which was held in January, was a strategy day. It gave us an opportunity to discuss certain topics further, and it allowed the board to look at key areas of challenge and priority and to consider which areas we would like to look at in greater detail. We identified a number of areas, from skills alignment to future skills needs and reskilling, and we looked at the work that is already being done in those areas, not just by the agencies but by other organisations and by Government. We also considered what other information we might need in order to provide context for our work.

There were a number of outputs from that meeting. It became obvious that there was a difference in the planning timetables of the various

agencies, so a piece of work has been done to align them. The board also adopted the actions and workstreams that were identified in the interim plan that the implementation group published last November. The board agreed to endorse the workstreams on the basis of collaborative working, so that the agencies can keep up the momentum of the work that they are already doing and work more closely together across a number of areas.

That is where the board is at present.

The Convener: Thank you. We have a question from John Mason.

John Mason (Glasgow Shettleston) (SNP): You talked about various things in your initial answer. What are the priorities for the coming months? You said that the board had agreed to “endorse the workstreams”. Will you expand on that and tell us how the board will move forward in the next few months?

Nora Senior: With regard to our priorities, the current interventions focus on the five key pillars: skills, innovation, investment, internationalisation and enterprise. The board is keen to ensure that any strategic plan is centred on the customer experience or the learner journey. There is feedback to suggest—indeed, some witnesses in previous meetings have reflected on this—that the experience of a business or a learner going through the system is currently disjointed. The board is keen to look at how we can make the process more seamless and provide much more of a joined-up experience for businesses, particularly given the make-up of Scotland’s workforce and business community, in which small and medium-sized enterprises and microbusinesses are predominant. Those businesses are under great time constraints and are focused on their own profitability and productivity—on keeping the doors open, as it were—so they do not have the bandwidth to go through different systems every time that they want or need to develop. One of our priorities is to make the customer or learner journey much more seamless for the user.

Another priority is to engage with some of the work that is already being undertaken, and to ensure that it is aligned not only among the agencies but with Government. The board feels that digital is one of the key priority areas in which existing and future skills needs must be considered, and we looked at some of the context around the digital discussion. The agencies—in particular Skills Development Scotland and the Scottish Further and Higher Education Funding Council—are doing some work on digital enablement in colleges, and the Government has a scheme to increase digital skills capacity and a digital challenge fund. Businesses may therefore be confused about where they should go to get the

help and support that they might need in order to develop and move to the next step.

We will also focus on building an evidence base. We have an enormous amount of data, but most of the agencies use it only to prepare their own plans. There is no central focus and no sharing of data to enable it to be used in a big-data analytics-type exercise. We are looking at how we can build our analytical capability not just in comparison with the United Kingdom but more broadly on the global playing field, because that is where need will arise as we move forward.

We are focusing on the customer journey, gathering evidence and homing in on the areas that we want to develop as part of our strategic plan.

John Mason: That is very helpful—thank you.

Dean Lockhart (Mid Scotland and Fife) (Con): Good morning. I am looking at the strategic priorities and performance targets. The interim plan set out some of the performance targets and the current performance gaps in the Scottish economy. Gaps were identified in internationalisation, innovation and investment with regard to what is needed to take Scotland into the top quartile of OECD countries. What will be done differently to enable us to make a step change in economic performance and to move from where we are now to the first quartile? Is that target realistic and viable?

Nora Senior: That is an interesting question, and the board is currently discussing it at length. There are challenges arising from the gap between Scotland and the countries that are in the upper OECD quartile. Those countries have a different economic mix from Scotland, and Norway, Denmark and Ireland are all fast-growing economies. Norway has focused its economic strategy around oil and gas and energy, while Ireland has focused on exports and on attracting large companies that can act as a hub to grow small clusters of other companies. The economic make-up of those countries is quite different. Scotland is more of a low-wage economy but with medium to higher skills.

There are challenges around productivity and sustainability. We have to remember that the top OECD countries will keep growing—they are not going to stop—and Scotland will have to work even harder to keep pace and to get into the upper quartile. The challenge is for Scotland to grow at least 1 per cent faster than the other growing economies in the upper quartile of OECD countries. My gut feeling—in fact, it is not just my gut feeling; I am sure that the committee’s adviser, Graeme Roy, would support this view—is that no other advanced economy is currently growing at a rate that would enable it to overtake or at least be

on a par with those countries. Our aspiration is the right one, but the reality is that there are challenges in trying to closing the productivity gap or overtake those countries.

Part of the challenge is to understand the gap analysis and where we are on productivity, sustainability and inclusive growth. Scotland is looking at inclusive growth as one of the criteria to make it the best society in which to live, but that is not necessarily one of the criteria for top OECD countries. Our aim is to look at the objectives for where we want to get to, and to create a goal that is achievable and which will drive productivity and closer alignment across the agencies while having an effect on inclusive growth. However, productivity and inclusive growth are slightly different.

Dean Lockhart: The Scottish Fiscal Commission identified Scotland's productivity as one of the reasons for its challenging forecast for the next four years. Over the past eight quarters, productivity in Scotland has been declining, whereas in the rest of the UK it has started to increase in the most recent two quarters. In your view, what are the particular reasons why productivity in the Scottish economy is so challenging?

Inclusive growth is one of the core pillars of the economic strategy, but we have heard from various witnesses that it can mean different things to different people. Is there a recognised definition of inclusive growth that is used by the board and by the agencies?

Nora Senior: On your first point, on the challenges around productivity, there are many reasons for the current situation. I am not an economist, so these are my opinions. Indeed, they are not even the opinions of the board, because we have not yet been able to drill down and produce final definitions for some of the terms. However, it is true that Scotland has one of the lowest rates of investment by business, not just in research and development but in innovation, training and skills and the adoption of digital technology. As many of you may have heard me say on previous occasions, 87 per cent of businesses in Scotland have a website, use email and think that they are digitally and technology enabled. However, between 7 and 9 per cent of businesses adopt programmes for customer relationship and supply chain management or resource planning and embed digital in their approach. Among our competitor countries—the Scandinavian countries that I mentioned—the minimum figure in that respect is 43 per cent. It is clear that there is already a huge chasm with regard to our business approach, and I do not think that the agencies will be able to flick a switch to ensure that business suddenly changes. There

are certain areas in which we need to focus on skilling and reskilling.

09:45

Where companies have adopted technology such as automation, that has resulted in job losses in some instances. Although individual companies may become more productive, on average, using gross domestic product per capita as one of the measurements, we are still behind the curve. Measurements of productivity will have to change. We may move away from using GDP, or we may look at GDP per capita and at raising wages by X amount of money multiplied by X amount of time. There are still discussions to be had in that regard.

I agree that inclusive growth means different things to different people and that we have not, as yet, bottomed out what the term means. Does it mean putting the whole of Scotland on a par, or does it mean that some areas have better-quality, higher-skill jobs while others suffer? There is a discussion to be had on the definition of inclusive growth and whether it should focus on gender, geography or generation. We have not quite reached a final conclusion on that.

Dean Lockhart: The strategic board was set up to align and streamline enterprise policy across Scotland. Subsequently, the creation of the Scottish national investment bank was announced. It may be early days, but do you have a sense of how those bodies will interact and work together?

Nora Senior: They will work very closely together, especially on growing companies. With regard to gender and the need to get women back into the workplace, some of the current Government programmes do not start early enough to allow that to happen. Social enterprises are currently on the cusp; they do not fall under a single criterion for investment, and some of them really struggle to get the investment that they need in order to grow. It would be helpful if there was a mechanism to address that. I know of a social enterprise in Dundee that is focused on childcare in the very early years. It would like to expand, but it cannot get the business mentoring or financial backing that it needs to move to the next stage. Given the type of service that the company provides, it would make complete economic sense to support it to provide childcare at a lower cost for women who want to get back into work, which would ignite another part of the economy. That is where I see the potential for overlap and for bodies to feed into one another to grow companies.

The Convener: There are a couple of follow-up questions, first from Gordon MacDonald and then from Gillian Martin.

Gordon MacDonald (Edinburgh Pentlands) (SNP): We have talked about productivity and the difficulty of getting Scotland into the top OECD quartile. Last week, the committee heard in evidence that seven countries have been in the top quartile for a number of years. To put that in context, can you tell us which quartile Scotland is in? Which countries are in the same quartile as Scotland?

Nora Senior: Scotland is about 17th in the rankings. In some areas we rank quite highly, but we do not rank highly in digital or in our investment in mid-growth companies. Part of the problem is that we do not have a significant amount of mid-growth companies. On some criteria, we are in the second or third quartile, and on other criteria we are in the upper quartile. On average, however, we are more often operating in the second or upper third quartile.

Gordon MacDonald: Are countries such as Austria, Finland and Italy also in that second quartile?

Nora Senior: It changes. I am trying to think of the countries with which we would most align ourselves. You said that some of the countries in the top quartile have been there for ages, but there are some newcomers in there such as Singapore and Ireland. The rankings fluctuate and change. I think that we actually rank below Austria, but we should not aspire simply to rank alongside countries with which we are already on a par; we should look at the countries in the upper quartile and consider the lessons that we can learn from them and which areas we could look at.

Gordon MacDonald: We heard last week in evidence that a large number of countries have been in the top quartile for a long number of years. We are in the second quartile, for a range of reasons that include our productivity, GDP per capita and so on. Obviously, the countries in the second quartile have the same aspiration as Scotland to get into the top quartile. Although we may rank lower than Austria, a whole range of countries that are larger than Scotland are in the same quartile as us. I am just trying to put Scotland's position in context.

Nora Senior: I would have to refer to our economist to give more background information. As I said, I am not an economist, but I would be happy to ensure that you are provided with more specifics on the comparators between each of those countries.

We have some material for comparison. However, we need to consider the reality. Are the OECD rankings the right measurement to look at? Do they provide the right framework for Scotland to operate in? Aspects such as Scotland's make-up, its workforce and the economic environment in

which it competes are very different. To go back to your question about whether OECD rankings are the right measurement, they are a measurement, but they are only one in a series of measurements.

Gillian Martin (Aberdeenshire East) (SNP): Good morning. I would like to pick up on some of the things that you said in response to Dean Lockhart's questions. You talked about skills and upskilling, which you also mentioned in your first answer to the convener. Are there enough links between further and higher education and businesses? I get the feeling that people tend to upskill and reskill only when they have reached a crisis situation. For example, they may have lost their job or perhaps they cannot find work. There could be closer links between the two sectors, in sharing the provision of continuing professional development, for example. Have you looked at that aspect? It is currently quite difficult for people to upskill while they are holding down a job.

Nora Senior: That is true, unless the business supports them in doing so. At present, businesses in general do not provide enough training budget for upskilling or reskilling employees. That goes back to the point about the adoption of digital technology. One area that we are looking at is the reshaping of the workplace. Part of that involves a generational challenge: we have an older workforce, and businesses are reluctant to employ younger people because it is an add-on cost for their salary line. We may need to look at workplace policies that might have an effect, for instance, by enabling older people to reduce their working week while younger people, such as apprentices, are brought into the business. In that way, businesses do not lose existing knowledge, but they bring on board young people who can be trained on the job.

Various opportunities come along. The World Economic Forum did an interesting piece of work on reskilling and upskilling that looked at the types of skill sets that could be changed and flexed to work in other areas. The whole area of in-job training is very important, and colleges are ideally placed to know what the needs of their local business communities are.

There is some disconnect in the area of forward planning, at which businesses in this country are quite poor. Training is needed on management and leadership skills, and on basic skills such as budgeting and business planning. Very few businesses actually have a three or five-year plan. They may have a one-year operating plan to get them through, but they rarely look forward. When the agencies are researching the skills needs of businesses, they look at a point in time and apply their knowledge to colleges, and colleges allocate places based on that knowledge and on the feedback that they receive. However, when the

students graduate, they may not get jobs, because the job landscape has moved on. Reskilling and skilling people on the job is certainly one of the areas that we are looking at.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I am looking at the broad sweep of the gaps in performance and wondering to what extent there is any crossover or interdependency between them, and how you manage that.

Nora Senior: Sorry, but in what way?

Colin Beattie: I am looking at the individual gaps. For example, we need another 85,000 people to participate in the labour market, which obviously has a knock-on effect on perceived gaps in other areas such as skills, job quality and so on. How do you manage that?

Nora Senior: Sorry, but I am still not quite sure what you mean. Are you saying that we have a skills gap, but also a productivity gap—

Colin Beattie: I am looking at the individual performance gaps. There is obviously a discussion to be had about each individual gap. However, to pick an easy example, if we succeed in getting 85,000 more people to participate in the labour market, there is a knock-on effect on other performance gaps, whether that is positive or negative. How do you manage that?

Nora Senior: The analytical unit is not quite producing information yet, but we are scoping a series of areas that it may look at. To go back to the make-up of Scotland's business community, we have a small number of large businesses that are very successful and that drive most of the export activity. In addition, we have around 20,000 medium-sized businesses, which is quite a small number. I have asked for more information on how we decide what a mid-sized company is.

We also have small businesses and even microbusinesses. It is estimated that there are around 198,000 microbusinesses in Scotland that are not paying VAT or participating in the pay-as-you-earn system. If we can analyse the landscape and funnel some microbusinesses into small business or even mid-sized business territory, where they will pay VAT and provide tax revenue, that will have a knock-on effect on investment and inclusive growth activities in other parts of the country. We aim to look at what would happen if we invested in microbusinesses, which are currently under the remit of the business gateway rather than the agencies, and consider the areas in which that would have an impact, which might then cause a ripple effect across other areas. I completely agree that there are knock-on effects.

The same is true for exports. We need 5,000 more companies to move into exports in order for

Scotland to move into the OECD upper quartile. There are initiatives to address that, but we need an analysis so that we know where we are and who wants our services and products. As far as I can see, we are very good at making economic comparisons with the rest of the UK, but we do not always do the same with other global economies. What we in Scotland think that we are good at is not necessarily what overseas economies think that we are good at. There is a bit of a disconnect there. We need to do a piece of work on where Scotland's real asset base lies, and we can then use that to plan for where the investment ought to go.

10:00

Through the workstreams, we need to look at what is of high and low importance, and at what has an effect on the economy and what cannot do so. If we map out our interventions in that way, with the help of the analytical unit, we should be able to identify areas of activity that we should just stop doing or that we should do much less of. We should also look at the areas of activity that will drive higher results and have a much greater impact on the economy.

The debate will be around whether we should invest in highly skilled, high-paid jobs that are driven by universities and R and D, or in areas such as construction, retail and health, which employ large numbers of people. The answer is probably a little bit of both but, if there was a 1 per cent shift in investment towards the latter areas, that might have a bigger effect than a 10 per cent shift towards the smaller high-value sectors. There is a debate to be had, but it must be based on evidence, as that has not been the case with a lot of what we have looked at in the past.

Colin Beattie: Can I infer from what you say that we are lacking information? That seems to be a fairly common thread running through the evidence from everyone we speak to.

Nora Senior: We have lots and lots of information, but we are not quite clever enough at making that big data make sense and making it work for us. One of the analytical unit's key aims will be to scope ways in which we can embrace all the data that is out there and make better sense of it.

The Convener: We have a final follow-up from Jackie Baillie and then a question from Jamie Halcro Johnston.

Jackie Baillie (Dumbarton) (Lab): I am not sure that my question is a follow-up. I am curious to know whether the strategic board has had any discussion or debate about why the Scottish economy is underperforming in comparison with the rest of the UK.

Nora Senior: We have had that discussion, but we have not reached a consensus, so I will give you my opinions rather than a view from the strategic board that it is definitely because of X, Y or Z. I cite the factors that I mentioned earlier: a lack of digital take-up and a lack of investment in people and training and in management and leadership skills, which has an impact on motivation, morale and ways of working. We do not adopt innovation in Scotland. Innovation takes many forms. Individuals can innovate in the workplace by making their own job more efficient. Businesses can develop bespoke programmes with teams of individuals, and in the next phase they might come up with a programme or a piece of technology that could be commercialised. Scotland is very poor at that. Scotland lags behind most other advanced economies on the number of start-ups, so there are issues in that regard. There is a raft of areas—there is no one thing that we would turn to and say, “It is because of that.”

In the past, we have focused on certain sectors. However, some of the evidence on our investment in those sectors over the past 10 years shows that the economic impact has been marginal. We have not been clever enough in evidencing and reviewing, and we have not been flexible enough to change our focus. We cannot address those issues unless we have the necessary information. To go back to what Colin Beattie said, it is critical that we gather evidence and that we make sense of the data. I would not write an operational business plan without evidencing what I wanted to achieve.

Jackie Baillie: We have taken a sectoral approach, but six out of the seven sectors that we were targeting have not grown at all—in fact, they have gone the other way. What, if anything, would you change about the enterprise bodies and the skills agencies that, along with the Government, set the direction of travel?

Nora Senior: First, it is important to say that the agencies can do only what the Government asks of them, so we need to start by getting the economic strategy right at the top. The enterprise and skills agencies are only one part of the whole economic driver. There must be a clear and joined-up articulation of what Government wants the agencies to do in order to drive the objectives and the end goals of its strategy. There needs to be more joined-up guidance in the briefs that the agencies are given, and they will respond to that.

Sorry—what was the second part of your question? Was it about what the agencies could do differently?

Jackie Baillie: Essentially, I was asking what you would change about the agencies in order to make them better.

Nora Senior: I am not able to answer that question yet, but there are a number of ways to explore it. The starting point must be to consider what will ignite the customer. What will make them feel as though they have had a really good experience? What are the themes that run across the five pillars—which include skills, investment and internationalisation—in making the experience much easier, less disjointed and more seamless for a business or a learner? When a business has a good experience, it will grow faster and, more importantly, its peer group will say, “Hmm, what they’ve done with their business is interesting—I’ll do a bit of that as well.” In addition, that kick-starts the mentoring process, in which businesses learn from one another. We have to drive those aspects much more quickly. The alignment between the agencies will be critical.

Jackie Baillie: I have one final point. Would you include the business gateway in that? If the experience is to be seamless, one would have thought that it should be included.

Nora Senior: That is an interesting point, which goes back to what I said about microbusinesses. I cannot answer your specific question, but that area is on the list for discussion, and we may come back with a recommendation. There is a discussion to be had around how we help start-up businesses and get them into the funnel, and how we help microbusinesses to scale up.

Jamie Halcro Johnston (Highlands and Islands) (Con): Some of what I was going to ask has been covered by Jackie Baillie, but I would like some clarification. If Government is driving the objectives and setting the strategy, how much influence will the board have in directing day-to-day policy in the agencies?

Nora Senior: We would not play a part day to day, although we would have an influence. For example, if I was doing some work around gender and trying to get more women into work, or around geography and how we get businesses to function in a rural environment, digital connectivity would be of paramount importance. I would, therefore, feed in my views to the Government in that respect. I might say that, if we are going to recommend that there is more investment in digital skills or in flexible working for rural economies, it will work only if the right infrastructure is in place to enable change to happen. Similarly, we might look at transport and connectivity, and at how people get from one place to another. We might recommend that, if more budget was put into rural infrastructure, it would enable the enterprise and skills support system to work more efficiently.

Jamie Halcro Johnston: How, in a practical sense, would that direction be given to the agencies?

Nora Senior: I was talking about how we feed into Government policy rather than agency policy.

Jamie Halcro Johnston: Right. How can you interact with the agencies to direct matters? I am talking not so much about influencing day-to-day policy, but about how you flag up a productivity or skills gap or what you may see as a priority for the Scottish economy as a whole. How do you feed that information to the agencies to make sure that their approach aligns with your view of how the Government's needs are being met?

Nora Senior: I align the strategic plan rather like I do in my own business planning. We start off with a big strategic plan and a vision of where we want to get to, and we work back to an operational plan, looking at what we are going to do and how we will get to the end goal of the strategic plan. I do not see this as being any different.

The strategic board does not have any input to the agencies' operational plans, but we can review them and measure the outcomes. The chairs of the agencies sit on the board; I see them as the lead into their own boards and agencies. Through them, we can ensure that the elements that are identified in the strategic plan are integrated in the development of the agencies' operational plans. The strategic board's role will then be to set measurements and undertake performance framework reviews so that we can analyse what has been achieved.

With regard to measurement, Audit Scotland currently audits all the agencies individually, so there is no overview of the collective impact that the agencies make. Again, we would probably bring forward a recommendation in that regard, and the analytical unit would look at consistent and core measurements that would apply across all the agencies.

Jamie Halcro Johnston: You talked about future skills alignment and reskilling as well as in-work training and retraining. As a country, do we need to focus on, or perhaps give more attention to, skilling people post the age of 24?

Nora Senior: That is an area to look at, although I would not commit to anything until I have looked at the data and a gap analysis on what might make a significant difference.

The strategic board does not want simply to run after the next shiny new thing. We have a diverse and broad set of agencies and public and private organisations that all have a lot of great ideas and are doing good things. We need to work out where we can make the most difference and who is best placed to help to make that difference. If Scotland cannot do that, I do not know which country can, because we are a small enough nation to get people round the table to discuss it. We will have to create a series of informed choices for priorities,

because we have a finite budget. We need to make clear recommendations in our strategic plan on where we ought to focus to make a shift, and we cannot do that unless we have some data behind it. If we do not have that data, we are simply saying that something is a great idea—it may be, but it will not necessarily make a significant difference.

Andy Wightman (Lothian) (Green): In your response to the convener's opening question, you mentioned that the strategic board, in its first meeting, reviewed the existing landscape, and you referred to the economic strategy. You also mentioned the growth commission. What is that?

Nora Senior: I understand that there is a growth commission that is looking at different aspects of the economy, but its findings have not yet been published.

Andy Wightman: So you were referring to the Scottish National Party's growth commission, but you have not seen anything from it—you are just aware of it.

Nora Senior: Yes.

Andy Wightman: Okay. The budget for 2018-19 shows that the Scottish Government will invest approximately £2.4 billion in enterprise and skills. It has been indicated that the strategic board will have some influence in the budget process and the budget allocations for each of the agencies for which you are providing strategic co-ordination. How do you see that relationship working? Will you sit down with the Cabinet Secretary for Finance and the Constitution, or will the process be subject to some formal protocols between the strategic board and the Government?

Nora Senior: No—the strategic board will not make any of the budget decisions; that is outwith our remit.

Andy Wightman: I know that the board will not make any decisions, but it has been suggested that it will have some influence in the budget allocations for each of the agencies. Is that your understanding?

Nora Senior: I imagine that, as part of the strategic planning process, we would make recommendations on important and high-priority areas, but the decision on budgets would be given to ministers—it would not be for the strategic board to decide.

10:15

Andy Wightman: I understand that the strategic board will not be deciding anything; it is ministers who decide. It is more that the finance secretary will be better informed, if you like, about potential

budget allocations in light of the work that the strategic board is doing.

Nora Senior: Ministers would be aware of the priority areas in which we think that investment in enterprise and business support is required. We will make recommendations about where the priorities are; it would be up to ministers to decide how to allocate that provision.

Andy Wightman: That is helpful.

I want to move on to wider economic policy. Obviously, the strategic board is focusing on the enterprise and skills agencies and what they do, but there will be links between that work and wider economic questions.

Will the strategic board take an interest in things such as the Scottish national investment bank and how it might contribute to Scotland's economic performance? Will the board look at aspects of fiscal policy, such as the small business bonus scheme? I note that the scheme is costing £226 million this year, while the total amount for regional selective assistance is only £16 million. The small business bonus scheme has cost £1 billion so far, but there has been no assessment whatsoever of its economic impact. There are a lot of other aspects of both Scottish Government and UK Government policy that impact on Scotland's economic performance.

Nora Senior: Indeed.

Andy Wightman: Do you see your role as being restricted to the provision of strategic co-ordination for the enterprise and skills bodies, or do you have a role in providing leadership and guidance, and offering views, on wider economic matters?

Nora Senior: I would hope that the strategic board might feed into, and perhaps act as a catalyst for engagement between, some of the other bodies. You make a good point about other frameworks and agendas that are embedded in different parts; the strategic board must have an understanding of those policies and frameworks. We may well recommend closer engagement with the Scottish Fiscal Commission and the Scottish national investment bank. There should at least be some joined-up thinking in that respect, because one area will impact on the other.

The Convener: We move on to questions from Gordon MacDonald.

Gordon MacDonald: Some of my questions have already been covered, but I have a general question. How do you think the Scottish economy has performed over the past 10 years? Which areas have shown improvement?

Nora Senior: Inward investment has performed well, and Scotland has attracted a good amount of

external businesses to locate here. Research in the universities has also done well, and there has been some expansion in high-growth companies.

On what we have not done so well, I go back to the adoption of technology by business, which has been very poor, as has Scotland's rate of start-ups. We have not got into exports as much as we probably should have, and we have not invested in people.

Gordon MacDonald: To pick up on the point about exports, we have seen an improvement in exports over a 10-year period. The recent report with which the Scottish Parliament information centre has provided us suggests that Scotland has the third-fastest growth rate for exporting businesses, just behind Wales and the east midlands but ahead of the other nine regions of the UK.

You said earlier that Scotland needed to get another 5,000 companies to become exporters. We can see from an analysis of businesses in Scotland that two thirds have no employees and 98 per cent have fewer than 50 employees. The vast majority of exports—83 per cent—are from medium-sized and large companies. Given that our base of medium-sized and large companies is just over 6,000, how do we get another 5,000 companies to export?

Nora Senior: It depends on what sector they are in. I agree with your analysis. Exports have grown in Scotland, but that is mainly because the larger companies have gone into more territories. We still depend on a small number of large companies to drive our export activity. The export potential is much greater in services than in tradeable goods, so we have to look at what tradeable services we offer. Those services do not necessarily have to employ large amounts of people—they could include accountancy or creative services. We should look at enablers such as technology to widen the scope. We can perhaps bring some of the microbusinesses that I mentioned earlier into the tax-paying environment, which feeds into the wider community. Although I said that we need an extra 5,000 companies to export, the definition of those companies and what they are exporting will be different. Again, we do not have the data on the real asset base of tradeable goods in Scotland that our overseas colleagues want. We need a better, or clearer, idea of what that asset base is. Scotland has traditionally been a supply chain, and we should not overlook the importance of our place in that respect. It is not necessarily about the people who do life sciences, although that is great; it is about how we fit into the whole supply chain.

I know from my experience with the Scottish Chambers of Commerce that lack of time resource is one factor that holds back companies of the size

that you mentioned, from microbusinesses to mid-sized companies. Large companies always have export managers who will make trade agreements and agreements with Governments, whereas smaller companies do not have that facility. That is perhaps an area in which the private sector can take over. I know that there are current initiatives through the Scottish Chambers of Commerce to facilitate business-to-business relationship growth. That is really important for companies of a certain size, because they do business by finding somebody who is already in the country and asking them how they got there. They learn from experience and personal introductions. We need to think about facilitating that by making the route much easier and the environment much more comfortable. Exporting is one side that I would like to drive, because it opens up new opportunities for Scotland.

Gordon MacDonald: You said that small businesses may need introductions because they do not have an export manager. How important is the globalscot network in that respect?

Nora Senior: All the facilities are important. Globalscot has the enthusiasm to engage with other businesses. There are also the chambers of commerce, which have a presence in 120 countries.

Gordon MacDonald: I have one last point. You said that the scope for increasing exports lies more in tradeable services. Are there any tradeable services that are unique to Scotland, or are you referring simply to financial services, for example, which are part of the wider UK financial services sector?

Nora Senior: We have financial services, but we also have a lot of creative industries that are mushrooming. A lot of oil and gas companies are diversifying into the knowledge space, so there are opportunities for companies to develop from existing industry bases. In addition, large businesses such as Amazon and Google can help in getting service-oriented or tradeable goods-oriented small businesses into trading environments. There are mechanisms available that we have not quite joined up yet.

Gillian Martin: We have heard from quite a few people, certainly while I have been a member of the committee, that support is patchy across Scotland. Now that business gateway is down at the local authority level, its approach will not be consistent. There are reasons why that is a good thing, but we are finding that the approach is inconsistent. We have also heard from Women's Enterprise Scotland that not many of the companies that are account managed by Highlands and Islands Enterprise or Scottish Enterprise are led by women.

You have touched a little on both those points. Do you see the strategic board as having a role in assessing where there are issues with the provision of support? Business gateway is often the initial contact for business support, so if support is not provided at that level, there is potentially a problem.

Nora Senior: You make a very good point. I do not yet have the answer to it, but we are looking into that area of the customer journey and where support from business gateway or the agencies is appropriate. We are looking at how we can join up the system of help and support from the point of entry onwards, so that businesses get the support that they need when they need it, whether they are looking for help as a start-up or for assistance with skills, investment or moving into exports. We will look at aspects such as gender, geography, generation and global. My answer to your question is yes, but I do not have the complete answer yet.

Gillian Martin: It is early days.

I go back to my previous question about skills. You mentioned the creative industries. As a former further education lecturer, I know that, although rafts of graduates are coming out of education with the skills to get into the creative industries, in which people are traditionally self-employed, not many of them have the skills that are required to set up a business, such as skills on filling in tax returns or incorporation. I see that as a potential skills gap. Has that come up in the strategic board's early discussions?

Nora Senior: Yes—that is a good point. I do a lot of work in China, and I am interested in the approach that is taken in Chinese universities. They invariably supplement a student's core subject with a business management module or an international module, so that the individual can set up their own business. Education in China is very much geared towards setting up individuals in business; there is a lot of social enterprise as well. Individuals can gain knowledge not just in their core skill but in how to manage and grow a business.

You make a good point about digital. At present, the digital sector cannot get graduates fast enough. The strategic board will look at the whole approach to the provision of digital knowledge in our skills system and consider how it could be developed. Recently, I was at a university in Scotland, and I visited some nearby businesses. They employ only a very small proportion of those who come out of the university with technology or computing degrees, because their businesses use technology that has moved on from what is being taught. We need to look at a more flexible system to integrate learning with workplace-based placements. That will help business to embrace technology, and it will help people not just to learn

about what they can do on a computer but to develop knowledge about soft skills in the workplace. When businesses complain that individuals do not have the right skills for the workplace, they are often talking about those soft skills.

Gillian Martin: Are you taking an overview of the existing agencies—there are some—that are supposed to facilitate enterprise among young people and graduates? Will you look at how they integrate at the chalkface, as it used to be called?

Nora Senior: We have not got to that bit yet, but it will be one of the areas that we look at. We will focus on who is doing what, as there is no point in reinventing the wheel. We want to eradicate duplication and align public sector, private sector and other organisations to look at who is best suited to do the job. Let us not fall over each other; let us look at whatever else we should be investing in as a priority.

10:30

The Convener: Are there any other brief questions from committee members?

Andy Wightman: It was suggested at some point that the strategic board might be underpinned in statute, but that is not the case. Do you have any sense of how long the board is designed to last, and at what point your job might be done?

Nora Senior: I cannot answer that, but it will be one of the aspects that we look at. My term is two years. The strategic board may continue in the same form, or we may recommend that it ought to look different. To go back to your earlier question about the other frameworks and agendas, there will be flexibility and mobility in the shape of the strategic plan, and therefore in the shape of the board and the performance measures around it.

Dean Lockhart: You mentioned briefly that the enterprise agencies can only implement the guidance that they are given in the form of central Government economic policy. Do you think that the innovation, internationalisation, investment and inclusive growth—the four Is—economic policy gives enough guidance and sufficient detail on what is expected of the enterprise agencies?

Nora Senior: That is a good question. It gives good guidance within the framework of each individual portfolio, but that is not joined up across the ministerial departments, which confuses the agencies. There are different outcomes and measurements—we need consistency in measurement.

The Convener: Thank you very much for coming.

Before I suspend the session, I should say that I have another commitment, and the deputy convener will therefore take the chair when we resume.

10:32

Meeting suspended.

10:37

On resuming—

The Deputy Convener (John Mason): Welcome back to the meeting. We are looking at Scotland's economic performance. I am in the chair because the convener had to go to another committee meeting.

I welcome the witnesses, who are Linda Hanna, managing director of strategy and sectors at Scottish Enterprise; David Oxley, director of business and sector development at Highlands and Islands Enterprise; Sarah Deas, head of inclusive models at Scottish Enterprise; Gordon McGuinness, director of industry and enterprise networks at Skills Development Scotland; and Dr Stuart Fancey, director of research and innovation at the Scottish funding council.

We have five panel members and 10 committee members, so there is potential for the session to run on. We will try to keep it reasonably tight, so it would be helpful if questions and answers could be reasonably succinct. I remind the witnesses that all five of you do not need to answer every single question if you do not want to, but I will try to give you every opportunity to come in if you wish to do so. A number of you who have been here previously will know that you do not need to worry about the microphones—they will be dealt with by others.

I will start with a fairly general question to get us going. We have asked this question of most of the witnesses who have appeared before the committee during our sessions on Scotland's economic performance. How do you feel that the Scottish economy has done over the past 10 years? You can catch my eye if you want to speak, or I might just choose someone. I see that David Oxley wants to come in.

David Oxley (Highlands and Islands Enterprise): Speaking on behalf of Highlands and Islands Enterprise, I think that the past 10 years have been characterised by resilience. We had a recession during that time, but the Highlands and Islands economy has consistently outperformed on some of the employment measures, with very low levels of unemployment and higher levels of employment. We have seen challenges, especially on wage growth, which has been quite poor. That partly reflects the fact that our economy is

dominated to an even greater extent than that in the rest of Scotland by small businesses and microbusinesses, and by sectors such as tourism and food and drink, which do not traditionally pay high wages. On a positive note, the productivity gap has been closing, as it has moved from 87 per cent of the UK average back in 2008 to 94 per cent in 2016. That is a positive sign.

I also point out our investment successes. Organisations such as Capgemini and Atos have come into the region, as have big industrial companies such as the Liberty House Group, which is in Fort William. We have seen a lot of activity in that space.

Challenges remain in areas such as population growth. Like many parts of Scotland, we experience outmigration of young people as they leave to pursue further and higher education opportunities in the rest of Scotland and the UK. The University of the Highlands and Islands has improved its offering over the past few years, but we still have a net outflow of young people.

The Deputy Convener: Does Scottish Enterprise see the picture in much the same way?

Linda Hanna (Scottish Enterprise): We see a similar picture of challenges and opportunities in the economy over the past 10 years. There have been particular challenges around oil and gas and financial services, but there have also been opportunities in those sectors. For example, diversification in financial services has occurred on the back of the task force work. Scotland has continued to do well on inward investment in particular, and there is research and development-related inward investment in the sectors that I have mentioned. We have seen a mixed picture in that regard.

We have also seen emerging developments in Scotland that are enabling it to match other countries and compete globally. For example, the Edinburgh digital cluster, which is a big part of the Edinburgh city deal, is focusing on data-driven innovation and on making Edinburgh the data capital of Europe. Over the past 10 years, there has been great development of the assets at the University of Edinburgh and in the city of Edinburgh, including through the Edinburgh-Stanford link. On the back of that, a cluster of very small companies are beginning to grow, and very large companies are coming in and investing on the back of the capability and skills that they can access in Scotland.

We have also seen developments in food and drink exports, which have grown hugely—by about 56 per cent since 2007—in the Highlands and Islands and across Scotland. The industry has made a concerted effort to look at the market opportunities for the products that we offer in

Scotland and to consider how they will play out internationally, and it is making sure that it delivers in that respect.

There is a mixed picture, and we have looked at some of the challenges, which has definitely helped to close the productivity gap, to go back to what David Oxley said. We need to build on the signals that show us where Scotland's economy could go in the future.

The Deputy Convener: My colleagues will come in with more detailed questions, but I have one more question. Linda Hanna mentioned the future. As well as looking back over the past 10 years, what will be the key opportunities and risks—general rather than specific—over the next 10 years? I see that Dr Fancey is nodding.

Dr Stuart Fancey (Scottish Further and Higher Education Funding Council): In the previous session with Nora Senior, the committee discussed the need to grow exports in Scotland. To do that, we should build on the opportunities that Linda Hanna highlighted, especially in emerging industries in which Scotland is experiencing domestic growth. We are generating data-driven, innovation-led companies and new food-and-drink businesses, and we most definitely need to build on that expertise in future.

To go back to your previous question, support for research in Scotland has been consistent over the past 10 years, which has given us a university base that has acted as a platform to grow the developments to which Linda Hanna referred.

Gordon McGuinness (Skills Development Scotland): On economic performance, I would mirror much of what has already been said. From a labour market point of view, we have seen growth in what we would term non-standard employment, which is sometimes referred to as the gig economy, and elements of which can be fragile for young people in particular. Underemployment is also an issue. Gillian Martin mentioned graduates and their skill sets; we are not necessarily getting the best return in that regard. In general, the number of self-employment registrations has increased, but the number of companies that are up and trading has not. We need to recognise that there is fragility in certain aspects of the labour market.

The Deputy Convener: Is that fragility a risk going forward, or is it in some ways an opportunity?

Gordon McGuinness: It is a risk. There are obviously unknowns in relation to the impact that Brexit will have on the workforce. A lot of the policy activity on inclusive growth and fair work has focused on the need to promote to employers the benefits of better-quality jobs. There is a lot of

evidence that better-quality jobs lead to better economic performance at company level.

10:45

The Deputy Convener: Does anyone else want to talk about the future?

Sarah Deas (Scottish Enterprise): I lead Co-operative Development Scotland, and one of the models that we are most actively promoting is employee ownership. Looking back, we have made a lot of progress in recent years in bringing the model to the fore and increasing awareness in Scotland, although admittedly we started from a low base. Looking forward, we are optimistic that many more business owners will actively consider that model. Its attributes range from rooting businesses in Scotland to driving performance, which is relevant to the committee's inquiry, and sharing the wealth of enterprise more widely. Inclusive growth is in the DNA of the model—it creates opportunities for all and drives growth across the population.

The Deputy Convener: We will go into some of those points in more detail. The next question is from Jamie Halcro Johnston.

Jamie Halcro Johnston: I am interested in looking back at the agencies' roles in economic performance. Can the witnesses point to one or two specific examples of where each agency's policies or projects have had a material impact on Scotland's economic success?

Linda Hanna: I am happy to kick off with a couple of examples from Scottish Enterprise. Looking back at some of the evidence that the committee has taken in previous sessions, and looking at our own evidence on the gaps with regard to the OECD quartiles, I would point to two things. First, on innovation, Scotland has moved up by one quartile to the second quartile—back in quarter 3 of 2012, we were in the fourth quartile. We have looked at how we support more companies to be “innovation active”, which is a term that the OECD uses that means that companies are actively taking forward different types of innovation in areas such as products, processes or the ways in which they work. We have looked in particular at how we invest more and how that leverages more investment from companies, not only in R and D but in other aspects that help to bring products to market. Currently, £1 in every £4 that is spent on R and D in Scotland comes as a result of an SE-supported project, which is a huge increase over that period.

The shift towards companies becoming innovation active is incredibly important, partly because of the number of companies that are now doing it and partly because—to go back to the discussion in the previous session—levels of

innovation and exporting are inextricably linked, so it is important that we support companies to innovate and to enter new markets. I point to the work that we have done with individual companies, groups of companies and industry sectors through the industry leadership groups. We have looked at how we can make the journey easier for companies—food and drink is a good example of that. We have done a lot of engagement in that respect.

The second example relates to maintaining Scotland's position in relation to foreign direct investment. We have maintained our position in the first quartile—which, given the global market, has been a challenge—and we have become the top location for inward investment in the UK, in particular for R and D. Again, that speaks very much to our approach, which looks at how we can build on our academic strengths, our company and supply-chain base and the skills base that comes through our colleges, schools and universities. In all those areas, we have maintained a good position for Scotland, and in some respects we have helped Scotland to move up to the next quartile.

Jamie Halcro Johnston: Is that specifically about marketing Scotland better abroad? What are the specifics behind that performance?

Linda Hanna: It is a mix of things. On inward investment, it is about understanding our strengths. We assess Scotland's capability in comparison with other parts of the world, and then target those markets, focusing on the types of inward investors who might want to come to Scotland. We set out the reasons why Scotland is a good place for them to do business and we talk to them about the support that would be available once they come here. That is about the university base, the supply chain and the skills base. We can lay out a proposition that highlights why Scotland is a great place to do business. On top of that, we look at what incentives we might need to provide. There is a marketing element, which involves not only Scottish Enterprise but our partners, universities and others talking about what Scotland is good at. We actively work on that with our partners.

On innovation, we work with individual companies and provide one-to-one support. We also work with industry leadership groups—as I said, the industry is starting to set out what it sees as some of the innovation challenges. We work with very large companies to initiate what is almost an innovation competition. They present a problem that they want to solve, and we ask small Scottish companies if they can come forward with solutions. We then support them in doing so.

David Oxley: I support what Linda Hanna said.

I will focus on a number of the programmes that HIE runs, which have touched many businesses across the region and which try to tackle challenges such as getting more folks to innovate or to trade internationally. Over the past two and a half years, we have run a programme called international Highlands and Islands, which has engaged with nearly 500 companies and supported them to take their first steps in exporting or to increase their exports of products or services. We have run other similar programmes, such as the innovate your business initiative, which encourages businesses to take relatively small steps and think about innovation.

Another focus has been leadership development. I think that HIE and Scottish Enterprise would both say that folks often approach the agencies for money, when in fact they really need things that are softer but harder to deliver, such as leadership training. We work with many businesses that have great ideas—they are start-ups or are coming out of universities—but they need to understand how to operate in a business and commercial environment. Our leadership programme has been very useful in addressing that issue.

I will highlight one example of where support from those programmes has come together in one project. Isle of Harris Distillers, which is a distilling business in the Western Isles, started in 2015 and is already approaching a turnover of £3 million just from the sales of one product—the gin; they have not started selling the whisky yet. We expect that that company will be supported further in its growth, and we have looked at traditional support in areas such as capital expenditure, development, leadership and international trade activity.

Gordon McGuinness: SDS has a sustained focus on the promotion of work-based learning. We have further developed the apprenticeship model, and we have introduced foundation apprenticeships in schools, which will build stronger links and connections between employers and young people who want to gain work experience, especially in rural areas. David Oxley talked about young people moving away from rural communities but, through the foundation apprenticeship, we are already starting to see an impact in the building of relationships. Over the past three years, the graduate-level apprenticeship has been developed in partnership with many of our universities and employers, and we are seeing real benefits from that. It is changing the dynamic and moulding more young people to fit the characteristics that employers seek.

On our wider service offer, I point to the development of career management skills in our

careers service. That is our longer-term aim, but we need to start further down the pipeline and look at issues such as equalities and gender.

Jackie Baillie: Linda Hanna talked about maintaining inward investment, yet the number of jobs from that investment is at its lowest since 2010. David Oxley said that the productivity gap is closing, but is that not because the UK's performance has weakened rather than because Scotland's performance has improved? I listen to all the wonderful things that people are saying, and I wonder why our economy is flirting with recession. Perhaps, sometimes, there is nothing that we can do to stop it.

Linda Hanna: I will kick off on inward investment—I apologise, as I have a bit of a cold and my voice is giving out. Our approach is very much to look at the global flow of investment to see where Scotland can compete. As I said, a number of those projects are based in R and D, so they tend to bring to Scotland jobs that are fewer in number but which offer higher value and higher wages and are more highly skilled. The number of R and D projects that come to Scotland is holding up. We are looking at how Scotland can continue to compete on that stage and how we can keep on bringing that investment to Scotland.

Jackie Baillie: Inward investment is currently producing the lowest number of jobs since 2010.

Linda Hanna: I do not have those figures in front of me.

Jackie Baillie: I do.

The Deputy Convener: If there are any specific questions on numbers, witnesses can come back to the committee in writing if they wish to do so.

Does anyone else want to comment?

Gordon McGuinness: The market for foreign direct investment is competitive just now, although there is an active pipeline, which is healthy. If the agencies were not doing all the good things that we are doing, the situation could be worse. I point to initiatives such as the jobs task force in Aberdeen and the response not just from the skills agencies but through business development, which is helping to diversify and open up new markets. There is the overall picture, but if we look at individual activities, we find that there are good stories to be told.

Dr Fancey: Linda Hanna made the point that many of the inward investment jobs that are arriving are in R and D and tend to be higher-skill jobs. Part of our job is to build supply-chain relationships so that Scottish suppliers can gain a broader spread of value from that investment and create jobs at a number of levels.

Jackie Baillie: I would be interested to get a breakdown of those jobs, if possible, so that we can see whether they are all in R and D and look at the supply-chain connections that have been made. That would be useful for the committee to know.

The Deputy Convener: The witnesses for whom that is relevant can come back to the committee with that information.

Sarah Deas wants to come in.

Sarah Deas: I want to answer Jamie Halcro Johnston's question about the material impact of the agencies' work. In looking at the life cycle of businesses, and Scotland-based businesses in particular, we are conscious that succession is a key issue. We are seeing a succession time bomb as baby-boom owners come to retire. It is projected that, over the next five years, succession will need to be addressed at an ownership level in 16,000 businesses across Scotland. We have introduced a new service called succession expert support, which is available to all businesses in Scotland. In addition, we are working with account managers in Scottish Enterprise and Highlands and Islands Enterprise to reflect on succession planning in businesses and bring the service forward. Our aim is to root and sustain businesses, and to promote succession as a turning point in businesses to drive future growth.

The Deputy Convener: Does Jamie Halcro Johnston want to come back in?

Jamie Halcro Johnston: Yes—I have a quick follow-up question. It is estimated that Scotland spends £120 more per head on enterprise and economic development than the UK average. Given the slow economic growth that we are experiencing, is that value for money? Are we getting a return on our investment?

Gordon McGuinness: I would need to see where those figures come from, as I do not broadly recognise them. In the previous session, Nora Senior was asked about evidence. SDS is trying to evidence the return on investment. We have worked with the OECD to create an evaluation framework, and we are going to link our data on the flow of young people into the labour market with data from the Department for Work and Pensions and Her Majesty's Revenue and Customs, which will give us a longitudinal view of the return that we get from our investment in young people through apprenticeship programmes. We are also working with the centre for work-based learning and with colleagues in the Scottish funding council to see whether that model can be applied to other areas. That should give us a much better picture of the long-term investment. We are also evaluating individuals' wellbeing with

regard to the benefits of work. That is a fairly broad study that will produce good-quality data.

Sarah Deas: From my perspective as head of Co-operative Development Scotland, this country seems to be punching above its weight in co-operative development. Yes, we are investing more in promoting co-operatives and employee ownership, but it is paying off in terms of the number of businesses that are now actively looking at the model. It gives us an opportunity, through progressive business practices, to differentiate our economy based on our desire for inclusive growth and to position Scotland in the world on that basis.

11:00

David Oxley: We have made a big difference in value for money in what we deliver. We support many big projects in a slightly different way. Our core budget is relatively small in the scheme of things, but we have invested £146 million in broadband infrastructure through the next-generation broadband programme, which has laid the foundations for business growth across the whole region. If we had not invested that money, there would be no superfast broadband in many of the island locations. More than 90 per cent of areas in the Highlands and Islands now have access to superfast broadband. We have made that investment now, and we will see the benefits in future. Things like that take a long time to develop.

Andy Wightman: We have heard—in fact, it was touched on in the previous session—about the weak performance of business research and development in Scotland. Do you have any insights as to why that is the case?

Linda Hanna: I will kick off on that question and then hand over to Stuart Fancey, who can add to my answer.

Traditionally, a lot of research and development comes from the part of the economy that makes things, and Scotland has a small manufacturing sector. Increasingly, the traditional position is changing, as there is a lot of R and D in the service sector, but most research and development is still carried out by manufacturers. We have been working with the manufacturing population to look at how they can improve that.

As David Oxley hinted, a number of the factors that impact on our performance in exports and in innovation often relate to management and leadership capabilities and the levels of broader investment that go into companies. In order for a business to invest in R and D and get into new markets, we need to ensure that it is well financed and that it has a clear plan for action. The interdependency that was mentioned in the

previous session impacts on the level of R and D in Scotland. To improve our performance in that area, Scottish Enterprise is looking at how we grow the parts of our economy—not only manufacturing but service development—that are much more likely to do R and D and to be successful at it.

We know that foreign-owned companies—Scotland is competitive in attracting those companies, as we have discussed—are much more likely to invest in R and D. How do we ensure that we continue to bring in even more inward investment in R and D and grow the supply chain? How do we encourage sectors that have traditionally been low performers in research and development to get involved in that area? We have been doing quite a bit of work on that. We also need to ensure that the mid-sized businesses that Nora Senior spoke about in the previous session—the ones that keep growing and reach a mid-sized level of growth—look outwards to international markets and build into their approach a focus on research and development that is innovation led.

Dr Fancey: As Linda Hanna said, companies that are based in Scotland do not traditionally invest a huge amount in R and D. The funding council has been working with Scottish Enterprise and Highlands and Islands Enterprise to open up the support mechanisms that universities—and, increasingly, colleges—are able to offer to the small and medium-sized business base in particular, where a culture of investment in R and D, and perhaps the confidence to invest, has been lacking. We have been using mechanisms such as Interface, which is an introduction agency and a place where small businesses can find support, to introduce the value of R and D investment and reduce the risk and expense for businesses of making those initial steps. Over the past few years in which Interface has been operating, 4,000 Scottish businesses have met a university and worked with it for the first time as a result of that activity.

We have looked at specific sectors in which there are emerging R and D-intensive business areas—as Linda Hanna mentioned—such as data science, and at Scottish industries such as aquaculture in which innovation is most definitely necessary to solve challenges around competitiveness and to improve the value of what businesses produce. We have built innovation centres around those areas, which are university-business partnerships that help businesses to work more closely with universities. There has been partnership working across the board over the past four or five years to make those opportunities available. However, helping businesses to recognise the value in those partnerships and to broadcast it to each other is

an incremental task. We are acutely aware that building clusters brings about business-to-business communication—we see universities and colleges as integral to those clusters, and we hope that they will help to generate a self-fulfilling confidence boost.

Andy Wightman: I have a specific question for the Scottish funding council. Do you see the strategic board as providing an opportunity to enhance the role that higher education plays in R and D?

Dr Fancey: Absolutely. It is extremely important that we position the higher education sector and colleges within our country's economic support system, and we will look to the strategic board to help us with that. We would want to lower any possible barriers to the full participation of the board in that respect.

Andy Wightman: I think—

The Deputy Convener: I want to bring in Gordon MacDonald, as I think that he has a question on that point.

Gordon MacDonald: Dr Fancey said that 4,000 small companies now have research and development projects under way. Traditionally, it has been larger companies that have tended to have the resource to spend on research and development, and only 0.4 per cent of Scotland's enterprises are considered to be large businesses. How much of an impact has that had on the lack of R and D spend? Is another issue the fact that, although a number of businesses are headquartered in Scotland, the decision making no longer happens here?

Dr Fancey: I am no economist, but I have no doubts about that—my understanding is that it is relevant. Our role in helping the further and higher education sectors to contribute to the growth of the Scottish economy is to support them to work primarily with smaller businesses. That is challenging, because smaller businesses do not have R and D directors or the capacity to do that kind of thing. We are trying to offer them that support outside, and to integrate it with the work of the enterprise agencies so that smaller businesses feel that they have wraparound support from the Scottish public sector. Again, the role of the strategic board is critically important in helping us to work with each other to help that to happen.

Andy Wightman: Linda Hanna talked about getting companies to grow and look outwards. As Gordon MacDonald said, the economy is dominated by small and medium-sized enterprises and even—as Nora Senior mentioned—by micro enterprises. How do we compare with other countries in the structure and size of our businesses and the rate at which they grow?

Linda Hanna: I do not have the figures on all of those aspects—we can follow up on that and give you the information. As far as I am aware, the self-employment rate in Scotland is growing, certainly at a faster pace than in other parts of the UK. That is good, because it represents a high level of entrepreneurship. Self-employment also gives people a lot of flexibility and independence at a certain point in their career. However, as Nora Senior highlighted, those start-ups are not growing to become mid-sized businesses. That has been a persistent challenge for Scotland over the past 10 or 15 years, so we are aware of it. The structure of our business base—a high rate of self-employment, a small number of microbusinesses and a small number of businesses that carry on growing to scale—has been an area of attention from the enterprise agencies for a number of years.

You mentioned other economies; we need to look at how other countries are able to support companies to scale up. We have been running programmes for businesses on scaling up from start-up to the mid-sized level before moving towards becoming a global company, and we have seen some examples of success from that. We need to ensure that we continue to do that, and to learn from companies that achieve that growth without public intervention. As Nora Senior said, initiatives also need to be private sector led, and we need to look at how we can encourage more of that engagement.

For a long time, we have advocated for the importance of having “patient capital” around those businesses, and we welcome the attention to that as part of the creation of the Scottish national investment bank. We need to ensure that all the ingredients are there to encourage an entrepreneur to be mentored, either by the public sector but preferably peer to peer, which makes a difference. We are putting in place support for finance and access to markets and, increasingly, we are looking at our export approach. We do not want simply to say to companies, “Here is a range of trade opportunities.” Instead, we want to say, “Here’s how we will help you on the specifics of trade development for your business.” A big part of our support for the food and drink sector has involved ensuring that the people in the market area can talk to food and drink companies in their language about how they might be able to access opportunities. We need to ensure that we do a range of things to deal with some of the structural issues in our economy.

Linked to that is the fact that we have a rural and geographically dispersed economy, which makes us different from other countries. We need to ensure that we look at the needs of rural communities and businesses. Increasingly, we are looking at the role of digital, which has come up a

lot in this morning’s meeting. If businesses can move to digital platforms, that can start to dissolve existing boundaries. The more we can ensure that digital infrastructure is in place and that businesses have the skills to use it, the more we can start to overcome those issues and help businesses to grow much faster than they were ever able to do before.

Andy Wightman: In recent years, some start-ups in Scotland have grown very fast and have then been sold—I will not mention any names. Is that a concern for Scotland’s future economic performance? Would we rather those companies remained under Scottish ownership, or does it not matter?

David Oxley: I will start on that one. We have seen a few local companies grow like that. When the cycle happens, there is often churn and employees go off and start their own businesses. They have gone through a great experience, starting off with a small company and ending up with a very large company, and they want to do it again. We have seen that in particular in the life sciences sector in Inverness. Twenty years ago, Inverness Medical was set up—it grew and grew, and became Lifescan Scotland. A number of companies that came out of its R and D facility have gone on to grow and develop, and those employees have experienced at first hand what it is like to go through that process. I do not see many examples in which folks have gone away and are sitting at home with their cash in the bank—they usually want to invest again.

Sarah Deas: We are seeing increasing interest in employee ownership from business leaders, who are concerned about the acquisition of their business—either from within the UK or internationally—when they retire. They are concerned about the need to root their business in its community and in Scotland, and they are choosing employee ownership for that reason.

I will give one example. I know that a few businesses have submitted evidence to the committee’s inquiry, and each one has raised those concerns. One of those businesses is Clansman Dynamics. When the company came to address ownership succession, it was approached by three international competitors: two from Germany and one from Italy. Its concern was that, as 97 per cent of its output is sold outwith the UK—it operates in the robotics and foundry sectors—acquisition would potentially take the production and jobs from Scotland. In evidence to the committee, Clansman Dynamics highlighted what has happened to those competitors over the subsequent five years, and the implications that that would have had for Scotland if acquisition had taken place.

Rooting businesses in the community, driving performance and sharing the wealth are the attractions of the employee-ownership model. From a structural economic perspective, it enables us to grow more businesses steadily to become mid-sized companies, which addresses the gap in Scotland's industrial structure.

Gillian Martin: This is the ideal point for me to ask my next question, which is about the need for steady growth. I am convener of the cross-party group on women in enterprise, and I get feedback from female-led businesses. They say that when they go for business support, they are asked to grow too fast—faster than they are comfortable with—and the targets worry them. They are more interested in steady, sustainable growth with which they are comfortable. They feel that, when they go for business support, they are being asked to move outwith their comfort zone, because the focus is always on superfast growth. I would like to hear some responses to that, particularly from Scottish Enterprise, which was mentioned in many of the testimonies that I received.

Linda Hanna: I will kick off on that, then.

With regard to our approach to working with companies, I would be surprised if we were pushing people much beyond their comfort zones. Our job is to be challenging and ambitious, and to ensure that we support any business—whether or not it is women led—by looking at its growth plans and how it sits in the market, and by bringing challenging ideas to the table. At the end of the day, however, the business is run by the entrepreneur or the management team, and our job is to support them in that. I would be interested in hearing some of the examples that you mentioned, including what that support has led to and why those businesses are not taking it forward.

11:15

Gillian Martin: Women's Enterprise Scotland frequently produces reports on those issues. Some women-led businesses say that they have not been able to access support because their targets do not align with the level of superfast growth that they feel is required. It is almost as if they have to talk up their business beyond what they can actually achieve in order even to get through the door. We have heard that sort of feedback from quite a lot of the people who have spoken to us.

David Oxley: HIE tries to work with a lot of businesses that have ambition—that is the benchmark, and the hurdle that they have to get over, rather than having to hit a specific level of turnover or jobs creation. We do not manage huge numbers of big businesses or even medium-sized

businesses—we work with portfolio clients, which are generally smaller businesses than the ones that Scottish Enterprise deals with.

There are challenges with regard to the number of women in business, certainly at senior level. Social enterprises tend to do more in that respect—the split in social enterprises is not quite 50:50, but it is not far off. In sectors such as tourism and food and drink, the split is reasonable, but in the oil and gas sector the numbers of female entrepreneurs and chief executive officers are very low. We try to use good examples of where a female-led company has grown and developed in a traditional sector—for example, the brewing and distilling sector, in which we work with a number of small female-led companies that have ambitious aspirations for growth—to encourage and promote the opportunities to more companies.

The Deputy Convener: You used the word “ambitious”. Are you open to people expressing ambition in different ways?

David Oxley: Absolutely. If we create 100 jobs in Inverness, that is great, but is it more important than creating 10 jobs in Stornoway or two jobs in Barra? We look at all of that in every investment that we make. We recognise that creating all the jobs in Inverness is not the right answer for the Highlands and Islands, and we invest disproportionately more in rural areas.

The Deputy Convener: Gillian Martin, did you want to come back in?

Gillian Martin: You asked my supplementary question, convener, and I was nodding along as you did so.

The Deputy Convener: I apologise for that. Andy Wightman, have you finished your questions?

Andy Wightman: Yes.

The Deputy Convener: The next question is from Dean Lockhart.

Dean Lockhart: I want to ask about performance targets. As we have heard, inclusive growth is one of the Government's priorities; indeed, that can be seen in the letters of guidance from ministers to the agencies. How does each agency define inclusive growth for the purpose of pursuing that agenda? How do you measure changes in inclusive growth from year to year?

Linda Hanna: The term “inclusive growth” was introduced to Scotland relatively recently, and it is fair to say that there is no common definition across the different parts of the system. Everyone has been looking at Scotland's unique contribution, and what that means. The Scottish Government is developing an inclusive growth

framework, and we are interested in seeing how it will align with the national performance framework.

Scottish Enterprise views inclusive growth as something that encapsulates both economic and social value. It is not about creating growth and then making it inclusive, but about delivering growth in ways that are inclusive of various people, communities and geographies. We work with different companies and sectors, and with different geographies—or, if you like, places; different communities are more comfortable with different words. Our work with companies very much focuses on the workforce and the workplace, and in our conversations with them, we think about their growth plans, and we talk to them about progressive workplace practices and how inclusive their business model is, given the growth opportunities in that regard.

We also talk to companies about investing in youth policies. That could mean employing young people, but it could equally be about their talking to schools, engaging with equalities and mentoring young people. We are beginning to monitor and track some aspects of inclusive growth; I will come back to that but, as I have said, our conversations with companies are very much about the workforce and the workplace in the context of fair work.

At a sector level, we have been working with industry leadership groups to help them build and embed in their strategy different ways of looking at inclusive growth, and to ensure that that aspect is stretched. Our work on productivity planning with the construction, food and drink and tourism sectors was initiated very much by industry, for industry. Those sectors, particularly the lower-productivity ones, were starting to ask how they were going to tackle some of the big issues around making growth much more inclusive in various communities. We are engaging on an individual level with regional and place agendas through local authorities and community planning partnerships, and we look at community benefit clauses as part of our work on big projects.

One example is the Edinburgh BioQuarter, which is not far from the Parliament. We have thought about how it is going to engage with the community on all sorts of levels, including through schools and graduate routes and with the on-site community. We are very much engaged in the regional economic partnership work. Ayrshire provides a good example of that, and another example is the city deal work and how we ensure the people in different parts of the community are able to engage with it. That is the way in which we look at it, and we embed that approach in what we do.

We do not have a single measure for inclusive growth, not least because we have tried to ensure

that we can track what we currently have. In our business plan for this year, we will introduce a number of tracking measures for inclusive growth to give us a baseline that we can learn from and use for tracking. I can follow up on that and share that information with you, but it will help us understand the right kind of measures that we need, because having the wrong measures can set the wrong behaviour. The right measures will help us track our performance on inclusive growth as we move forward.

Sarah Deas: As an example, one inclusive growth measure is the number of co-operatives, employee-owned businesses and social enterprises that we support. We are setting the measures just now. Looking forward, I would like to carry out further research in Scotland on the productivity benefits associated with employee ownership in particular. International research shows that employee-owned businesses are between 5 and 10 per cent more productive than their peers who operate on a more conventional model, and that the productivity benefit is sustained. Given where we are with the adoption of the model in Scotland, it will be interesting to start to track the productivity benefit from employee-owned businesses.

The Deputy Convener: Does an employee-owned business understand inclusive growth better than other forms of business?

Sarah Deas: It is very much part of the DNA of such businesses. The principal thing is that when a business moves into employee ownership, trust is established, and that acts as an anchor for the business and for the employees of today and tomorrow. It immediately addresses the issue of succession. Employees have a stake in the business either directly or through owning shares, or a combination of both. That sense of ownership and purpose and the understanding of the business's mission make the model inclusive. The model brings forward ideas, drives innovation and reduces inefficiency, and it performs particularly well in producing a productivity gain. The point about inclusive growth is that it is about sharing the wealth more widely and keeping profits and dividends within a community, which produces a multiplier effect through local spend.

Gordon McGuinness: We need to recognise that the model is still evolving. In fact, my team is meeting the Government this afternoon to discuss these issues. We have piloted work with the three Ayrshire local authorities to take the inclusive growth model down to the level of locality planning. That has enabled us to identify, for example, a lack of digital skills and accessible childcare as barriers to people entering the labour market.

For SDS, inclusive growth is about fully understanding our customer base, so that we can target services at young people with protected characteristics and understand how we can support them through the system. It enables us to ensure that the system connects up better, particularly when we are working with partners, and allows for earlier intervention with that specific client group. I have already mentioned the development of the foundation apprenticeship model, which creates a different operating model and gives young people with additional support needs exposure to real-time work experience. The model can be applied to the attainment gap in schools, which is obviously a big focus for local authorities and Education Scotland. There are a number of areas in which organisations need to work in partnership to ensure that their systems connect up in a local authority area, and the framework is still evolving for SDS.

David Oxley: Inclusive growth can mean many things to many people, but, as Nora Senior mentioned in the previous session, it addresses gender, geography and generational aspects. That is a pretty good definition, given that we want to try to reduce inequalities in those three areas. We do a lot of work to monitor the business values and progressive practices of not only our businesses but our social enterprises, which account for approximately 20 per cent of our account-managed portfolio. That can include anything from the number of young people whom they employ to gender equality on the board.

With social enterprises, we often invest for social impact rather than financial impact, although we encourage social enterprises to focus on the enterprise as much as the social aspect. It is important to get the balance right. We are increasingly looking to embed social impact benefits in many of our construction projects. One example is the most recent project that we have announced. I cannot give you any details or name the company involved because we are in a 10-day stand-down period, but what I can say is that the company that won the contract is head and shoulders above its competitors in terms of its social impact, which certainly helped its bid.

Dr Fancey: For the funding council, the greatest meaning of the term “inclusive growth” in our work involves a recognition that the biggest contribution of universities and colleges to the economy comes through the graduates that they produce: the people who are educated in those institutions and who then enter the economy in one way or another.

For us, then, inclusive growth and inclusivity are very much bound up with ensuring that opportunities for people in Scotland are inclusive and that everybody has fair and equal access to

further and higher education. A huge amount of our work in this area has focused on widening participation, and we have been working with the commissioner for fair access, with our SDS colleagues and directly with the universities and colleges to ensure that we do not let up on giving all young people the same opportunity. That is hugely important for us.

However, that does not mean that we are not interested in other things. I am very pleased with our work on helping universities start companies; we are extremely good at spinning out companies from Scottish universities, which should be proud of their success in that area. Participation in the spin-out process—through, for example, the converge challenge competition—is increasingly gender equal, which matters hugely to us. The more businesses we can start that are led by people from all backgrounds and all genders, the better.

Dean Lockhart: Thank you for that feedback. In its report on the enterprise review, “Supporting Scotland’s economic growth: The role of the Scottish Government and its economic development agencies”, Audit Scotland found that it was difficult to measure the impact of enterprise and skills spend in Scotland. The agencies have a budget of £2.5 billion a year, or whatever it might be. Given that the definition of “inclusive growth” is not settled and means different things to different people, and that it is difficult to measure changes in inclusive growth, do you agree that a focus on that type of growth does not necessarily address Audit Scotland’s concerns and that monitoring the impact of enterprise spend will continue to be difficult? Maybe Scottish Enterprise can start, if it wants to.

Linda Hanna: Scottish Enterprise will continue to track the return on every £1 that we spend, and we do that through a combination of evaluating the evidence from our real-time insights into the companies that we work with and tracking individual projects. That is our evidence base, as the committee will have seen. The strategic board gives the agencies an opportunity to bring together their separate and collective work, and we can look not only at what we are doing individually and how that work is contributing to achieving the economic outcomes that we seek but at what we are doing collectively. A good example of our collective work is the innovation centres, through which we are working with Highlands and Islands Enterprise and the funding council to promote opportunities and tackle challenges for Scotland’s business base. That links in with a number of issues that have been discussed around R and D, innovation and exports.

11:30

An individual agency needs to hold itself to account for every £1 from the public purse that it is given to spend, and to demonstrate the impact of that spend. However, the strategic board needs to be able to demonstrate the collective impact. That said, there are a number of economic factors outwith our control that have an impact on our work. With the whole-systems approach—we have talked about business gateway, local authorities and city deals—a combination of levers can have an impact on the economy, and we need to ensure that we understand the total picture in driving forward the overall outcome for Scotland that we seek.

Gordon McGuinness: We are pretty clear in our measurements—we use the national performance framework. There might be issues with the articulation between those key performance indicators and the inclusive growth framework, but we have a good set of measurements there. In specific areas such as the equality action plan, we manage and measure our impact well. We use the participation measure to see where young people are in their journey into employment; that is a common measure, and our data set is shared with the DWP, colleges and local authorities. We have good metrics to measure performance, but we would need to look at the context of Audit Scotland's statement.

Gordon MacDonald: We have talked an awful lot this morning about productivity. We have heard that productivity in Scotland is improving in comparison with the UK average; we are certainly better in that regard than a lot of other parts of the UK. What are the low-skill sectors, which often have low productivity, and the agencies doing to try to improve productivity in those areas?

The Deputy Convener: I see that everyone is looking down. Would anyone like to go first?

Linda Hanna: I am happy to kick off.

The Deputy Convener: It always seems to be Ms Hanna who starts.

Linda Hanna: As I have mentioned, the sectors in which there is low productivity—and high employment, in fact—include construction, food and drink and tourism, and all the agencies have been working with industry leadership groups to draw up productivity plans to start to address that. The three plans that are currently in place were launched in 2016, and we are already seeing some results from the action that has been taken in areas such as investment in leadership and management and the application of technology.

Construction is a brilliant example. The public purse invested in the construction Scotland innovation centre to facilitate off-site

manufacturing in the context of global advances, and it has made the industry much more attractive to young people and women with the shift to making things in a factory rather than on site. That brings not only efficiencies, but an opportunity to address societal challenges by using sensor technology and specific construction fabrics in order to create homes.

In the food and drink sector, addressing the productivity challenge has largely been about helping companies grow and move up the value chain, which can help to address wage levels in the industry. As for the tourism sector, we have been looking at specific destinations such as Glasgow, Dundee and Aberdeen to address productivity, and we have worked with around 800 tourism businesses in those areas over the past couple of years to look at how we can support them in working together. We have addressed issues such as the adoption of data and digital approaches—looking, for example, at how tourism businesses get online and are able to sell and promote their business in that way—as well as the development of destinations, which has allowed for growth.

As those plans have been in place for a couple of years, we have an opportunity to learn from the experience and think about the common themes that have emerged such as investment, digital and leadership. We can look at how we apply that learning to other sectors such as retail and care and then think about what we need under the new enterprise and skills system in order to take that work forward.

Gordon MacDonald: Before the other witnesses respond, I want to ask about construction. About five or six years ago, I had the opportunity to visit CCG in Cambuslang, which is a fantastic resource. The benefits were obvious in addressing issues such as down time due to weather on site, given the company's ability to put together a windproof or waterproof house or flat in a very short period. However, there does not seem to have been a lot of improvement on that. Building sites today still tend to use timber frames and work on site, and there is the usual down time. We know that there is a model that makes construction more efficient, but we do not seem to be moving very quickly away from the traditional model. Is there any particular reason for that?

Linda Hanna: Some of it is simply about the length of time that it takes an industry to change its model completely. If any of you have not been to visit the construction Scotland innovation centre, I encourage you to do so—we can set that up for you. We have worked with the innovation centre to set up the offsite solutions Scotland coalition, which is looking at how Scotland can

take advantage of Scottish and UK aspirations for building new houses.

You are right—the whole industry has not moved on yet. However, there are definitely some areas of progress that we can build on. We need to ensure that people know about those things; a big part of the innovation centre's work involves raising awareness among the companies with which it works. It has a membership model and demonstration facilities, so construction companies can come and see the equipment and play with it—all that kind of stuff. We need to help many more companies to realise that making a longer-term investment is the right route to take rather than doing what they have always done in the past.

David Oxley: Linda Hanna mentioned the tourism and food and drink sectors. As I mentioned earlier, HIE has put a huge amount of effort into enabling tourism businesses to take advantage of the broadband roll-out. We support many companies to think about who their customers are and to target people at the right level—for example, international visitors are often wealthier and will spend more—rather than just waiting for folk to turn up. Businesses need to take a proper marketing approach in that area.

In the forestry and timber sector, there are great opportunities to use technology. Rather than felling a whole wood, the right tree can be chosen and felled at the right time, which brings a better yield from the product and increases productivity. We are continuing to work with a number of the big forestry companies in the region.

The creative industries sector is dominated by individuals, and there are often productivity challenges. However, we have had some success through the creative industries networks that we run, which are increasingly working together. Those networks, rather than simply being individual networks for writers, musicians or games producers, are enabling collaboration among very small companies and individuals. For example, a games company may need a musician to write the music for a game, and the network is really important in that respect. That collaboration is important for increasing growth—we cannot grow a musician from one person to two people, but we can get them to work in a different way to use their talents.

Sarah Deas: My team works with the sector teams in Scottish Enterprise and HIE to promote collaboration through the consortium co-operative model. The majority of our clients are in the tourism sector, the creative industries and the food and drink sector. I will give a couple of examples of strategic projects. The Argyll and the Isles Tourism Co-operative is helping tourism businesses to collaborate and achieve more on a

greater scale. More recently, in the food and drink industry, the Made in Scotland consortium has been helping Scottish food and drink companies to take their products abroad and pool their resources to access international markets.

Dr Fancey: I will bring into the discussion one more sector, which is health and social care. Social care in particular is at the lower-skill end. There is a huge opportunity to increase both the quality and efficiency of care by using technology, and by rethinking some of the models and the way in which care is delivered. Along with SE and HIE, the funding council supports the digital health and care institute, which is an innovation centre. It is looking at the provision of remote support and the use of technology in the construction of houses, which Linda Hanna mentioned. That will allow us to improve the quality of care while also increasing the value for money in spend on care from the Scottish purse. The resources that universities and colleges provide to those innovation centres is critical in underpinning that improvement.

I cannot stress enough the importance of the link between those improvements in technology and processes and the skills that the future workforce needs to operate in that environment and create maximum value. That is very important, not only to the funding council but across the strategic board. Through initiatives such as the innovation centres, we are making that link as strong as it can be.

The Deputy Convener: Mr McGuinness, do you want to come in?

Gordon McGuinness: All the contributions have reflected the partnership work with the industry leadership groups. Groups such as the Scottish Tourism Alliance and Scotland Food & Drink have been great industry partners. However, at the end of the day, we still need individual business leaders and management teams to commit to making changes. We can have a central approach, but we also need to work at an individual company level. The Scottish manufacturing advisory service does great work in that space, but the commitment needs to come from the companies. In the previous session, Nora Senior touched on the need for companies to move up to the next level in the value chain and take a more sophisticated approach. Too many companies stick with the same old process, as Gordon MacDonald described in relation to construction.

Gillian Martin: I want to concentrate on skills, as I always do when Gordon McGuinness from SDS is in the room. In the previous session, I raised with Nora Senior the issue of people who are no longer young having to reskill while they have family commitments and mortgages, and the need for in-work upskilling. I am conscious of the

work that has been done around apprenticeships, to which Gordon McGuinness referred. He has mentioned young people a lot, but what about the people who are preparing to change career? That is a real issue. We recently met with focus groups—in my group, a couple of people said that they felt that they had missed the boat on training and that they found it very difficult to get back in while maintaining a job.

Gordon McGuinness: At the UK level, not a huge amount of resource has been spent on that area. The UK Government recently reintroduced the individual training account, which provides a subsidy of up to £200 to kick-start training. That has been well received; we have tightened the criteria a little to focus more on labour market requirements.

The level of youth employment was bad, as Jamie Halcro Johnston mentioned earlier, and we focused a lot of resources on young people through the colleges in particular. However, I also see the colleges as a mechanism to give people a second chance to get back into learning. We now have a fantastic college estate, and we need to think constructively about how we free that up. Most—although not all—college buildings are closed at weekends, when they could create a bit of space for people who are in work or have family commitments. Colleges have responded differently to that issue. I sit on the board of Glasgow Clyde College, which runs a weekend programme for childminders who are normally occupied from Monday to Friday—there has been good take-up for that.

We need to think constructively about how we use the resources that we have. I flag up the issue of online learning. I have seen some innovative practices come into the market through the commercial route, so there is definitely an angle there as we begin to look at the impact of changes in technology and at how we help people to adapt. Rather than waiting to help people through a PACE—partnership for action on continuing employment—intervention, there should be a framework for earlier engagement with them. We provide all-age guidance, which is available to help people to think about their skills, but we could probably do more to deliver in that area.

Gillian Martin: Nora Senior said that businesses were maybe not doing enough to upskill their employees. I would be interested to hear anyone's views on that; it certainly chimes with my experience.

David Oxley: That is often a challenge. We try to work holistically with companies to identify the opportunities and challenges that they face. Leadership is often one of the big things that they need. We run a programme to improve leadership at various levels in an organisation. The most

popular part of the programme is for emerging leaders: the people who are having to supervise staff for the first time. The programme is really popular with many businesses, from small companies to big companies. It enables individuals to gain transferable skills, which will not only help their current employer but give them a better skills base to enable them to get a better job in another company if they choose to move on for whatever reason, be it positive or negative. We encourage an awful lot of that.

11:45

An important aspect of that is that people are not simply doing a training course with a provider—they are going away with other businesses and are able to learn from them. As Linda Hanna mentioned, collaboration among businesses is important. Businesses—even those in a different sector—may be experiencing the same challenges with staff or productivity, and other businesses can learn from them.

Gillian Martin: Are businesses engaging enough with FE and HE on in-work training?

David Oxley: No.

Linda Hanna: If we are all honest, the answer is no. There are a whole bunch of barriers, some of which Gordon McGuinness mentioned. Colleges and universities have to provide a huge amount on a certain timescale, so we need the right model that creates a win-win situation. Educational establishments and businesses each have a set of needs, and we need to find a way through that.

In today's world of digital technology, we need to think about the skills that companies want and the types of courses that are needed, and how an individual can find the learning that they require. We also need to think much more about the role of short courses, which other economies use to promote skills such as coding. In Scotland, short courses in coding have been successful, and people who have retrained have quickly moved into higher-value jobs because there is a demand for those skills in the labour market. We need to look at how we scale up that approach more quickly, and at how we raise awareness and ensure that individuals can overcome any financial challenges that they face in that regard. We are already looking at a lot of those areas as part of our work on alignment, but we need to think much more about the role of the private sector.

Dr Fancey: The lack of confidence among businesses to invest in the skills of their workforce is a hurdle, as such investment involves risk and money. In addition to our work with the college sector on building a more nuanced relationship with businesses to deliver bespoke training and the like, which Gordon McGuinness described, we

have for some time supported mechanisms to enable businesses to look at what it might mean to bring a much more highly skilled employee into their workforce—for example, through the knowledge transfer partnership—and see whether it could be transformative for them. In the majority of cases, it turns out to be enormously transformative to bring in a graduate for a fixed period of time, subsidised by the UK and Scottish Governments, to carry out a project or change something. Those highly skilled graduate workers tend to be employed immediately, which changes the business's attitude to the skill levels that it needs. There are many ways in which we can help businesses with that issue, and we should come at it from a variety of angles.

The Deputy Convener: Gillian Martin has one last point.

Gillian Martin: As I mentioned to Nora Senior, the lack of business skills among our graduates is an issue in the creative industries in particular. I am interested in hearing thoughts from any of you on that.

Gordon McGuinness: I would not disagree with that—it is an issue that we need to address. I am currently doing a piece of work with Creative Scotland on its screen unit. The creative sector offers non-traditional employment, and people need the skills to be able to adapt, whether they are doing portfolio work or bidding for work. We need to do more in that space, not only to make people more commercial in their approach but to enable them to understand the value that they add and what their market price is in a certain area. We have recognised that issue—we have developed the creative industries skills investment plan, and aspects of our portfolio work relate to that sector, but we need to do more.

The Deputy Convener: We move to our final section. Kezia Dugdale has been waiting patiently to ask her question.

Kezia Dugdale (Lothian) (Lab): David Oxley said that we often invest in social enterprises for their social impact rather than their financial impact. In the previous session, Nora Senior told us that social enterprises often fall between the gaps, because they do not fit neatly into funding models. What are any of you doing specifically to support social enterprises? Are you ensuring that you see them as businesses with growth potential rather than simply as organisations that do social good?

David Oxley: As I said, we currently manage over 100 social enterprises across the Highlands and Islands. They are doing great things, whether that is getting young people into employment opportunities, providing social care in one way or another or hosting arts activities for people who

have physical and mental disabilities. Supporting social enterprise is fundamental to what we do. We focus a lot of our support on enabling social enterprises to own and use assets, whether that involves a community asset transfer from a public sector body or the development of something. Once a social enterprise has invested in such an asset, it can use that asset to create activities.

The Deputy Convener: Ms Deas, is this also your area?

Sarah Deas: Yes, indeed. As you will be aware, a broad spectrum of support is available for social enterprises, and the ecosystem of support is quite diverse. Scottish Enterprise is part of that. We do not play someone else's part; we play an appropriate role to help social enterprises that are ambitious about scaling up to access our account management support. More widely, we make available our specialist support to businesses that will benefit from it. For example, we have been running cohort programmes that focus on helping social enterprises to become more innovative, and we provide one-to-one specialist support for enterprises that wish to embed innovation in their businesses.

We also promote collaboration between social enterprises. There is a new initiative called partnership for procurement, in which Co-operative Development Scotland is a partner. We are working to help social enterprises to collaborate in bidding for public and private sector tenders. We provide some very specialist support that is oriented towards those needs.

Kezia Dugdale: I come back to the idea that social enterprises—or at least some of them—should be considered as businesses. I will give you an example. Last Monday, I visited a social enterprise in Leith called Projekt 42, which is a gym that operates on a PureGym-type model and that has the potential to offer franchises. In its first eight months, it has gone from employing one person to employing 24 people, and it is just about to take on a piece of land that is worth £1.4 million. It needs support for capital infrastructure and help with access to banking, much as any other fast-growing business would, but it cannot get that support because it is viewed as a social enterprise that does public good rather than a potential high-growth business. What can the agencies do to support organisations such as Projekt 42?

Sarah Deas: The natural starting point for that business, as a high-growth start-up, would be Firstport—

Kezia Dugdale: It was Firstport that arranged the visit. The business still needs access to capital.

Sarah Deas: Social Investment Scotland is the specialist funding arm for social enterprises, and a

number of other organisations also operate in that space. Once Projekt 42 has pursued its journey through the specialist agencies, the mainstream agencies are also a possibility.

Kezia Dugdale: You say that that is a possibility, but it does not feel like that to Projekt 42. It does not feel that it is being treated as a business, despite its growth potential.

Sarah Deas: An important aspect of that relates to the point that was made earlier about how people navigate the support ecosystem, and how the various support organisations work together to make that journey easy and transparent for the client. The key point to take from your example is that we should ensure that social enterprises do not need to know about every part of the support ecosystem—they need to be supported in the round in order to meet their needs.

The Deputy Convener: We have had a thorough look at a range of issues. I thank the witnesses very much for their input.

Jackie Baillie: Convener, I indicated to you earlier that I wanted to come in.

The Deputy Convener: Sorry—I thought that you were indicating that you wanted the meeting to finish quickly. [*Laughter.*]

Jackie Baillie: No—I was indicating that I wanted to come in after Kezia Dugdale. Clearly the hand signals are not working today.

The Deputy Convener: I misunderstood your hand signals—I am new to this. Please carry on.

Jackie Baillie: Thank you—I am much obliged.

I want to come back to issues that I explored with Nora Senior. Do you have an analysis of why Scotland's economy underperforms that of the rest of the UK? Do you agree with the Scottish Fiscal Commission's projections for how our economy will perform in future? Gordon McGuinness can start, because he is looking at me—that was a mistake.

Gordon McGuinness: Not at all. Since the big financial crash, things have been sluggish. I am not an economist—as someone said earlier—but I am aware that some areas have been sluggish while others have shown growth. In the oil and gas sector, we went from a real skills shortage to a slump in the price of oil, for a variety of reasons, which has made things particularly challenging. We face issues around Brexit, which will either make things better or exacerbate problems and make things a lot worse. There are some unknowns in there, in particular for businesses with regard to how they react to the current situation. We are working with a number of companies that employ large numbers of

European Union nationals on the potential implications for them.

Looking across the sectors, it is clear that—as was touched on earlier—some of them have gone through really good times while others have not. There has been strong performance in the food and drink sector, whereas there have been ups and downs for other areas. As an organisation, we can only respond as best we can by working with industry leadership groups and taking soundings and insights from them, and taking that forward into the skills planning work that we are doing in conjunction with the funding council.

Jackie Baillie: In fairness, the impact of Brexit is likely to be felt across the UK, or are you suggesting that there will be a differential impact in Scotland?

The Deputy Convener: Can we keep the answers fairly brief? We have spent quite a lot of time on this session.

Gordon McGuinness: There are challenges for some of the rural regions. For example, given the number of EU nationals who are working in the Highlands and Islands, I would have thought that there will be a disproportionate impact in that area.

David Oxley: We have not talked a lot about companies' attitude to investment. Many businesses would classify themselves as happy non-borrowers—they could maybe get investment from the banks, but they are a bit nervous about taking that step. We need to try to work with businesses to encourage them to do that.

Our latest business panel survey, which we carry out every three or four months, showed that 70 per cent of the 1,000 businesses that we surveyed had experienced good and steady performance over the past year, and virtually the same proportion of businesses were optimistic about the next 12 months. We did not ask them to forecast what they might be doing in 10 years—that would be a little optimistic—but they are still showing resilience and signs of optimism about the economy.

Linda Hanna: I will add to that and summarise some of the things that have been said. On productivity levels in Scotland and in the rest of the UK, it is clear that we face challenges around the level of business investment. The gap is massive, and we have a lot to do if we want to hit the OECD targets. The issues are partly to do with research and development and capital, but there is also an issue with risk appetite. We have seen that in particular in the work that we have been doing on the manufacturing action plan. We have spoken to very small companies about their appetite for investment in building the business from its current envelope, and for investment in kit. We have talked about the management of risk in

borrowing money. People are happy not to do that but, if they do not invest, there is no increase in productivity. We are seeing some differences between the profile in Scotland and the profile in the UK.

Innovation levels are going up in Scotland, but they need to go up even further. Lack of innovation, and the lack of management and leadership skills that we talked about, have been an issue for productivity. We know that there are challenges around trade and exporting. In a period of uncertainty, people think that it is best to hunker down, when actually it is best to look outwards, innovate and start to do some things differently. The lack of ambition to do that and a reduced appetite for risk have had an impact on productivity levels in Scotland. The job for us all is to look at how we encourage business, not just at industry level but through providing support to individual companies, to move forward in those areas.

The Deputy Convener: Does anyone want to say something else?

Jackie Baillie: I have one final, very quick question for the witnesses.

If you were the minister, what changes would you make to your organisation?

The Deputy Convener: I ask for a maximum of one sentence each.

David Oxley: More collaboration across the agencies.

Gordon McGuinness: Greater agility.

Jackie Baillie: Everybody else is silent.

Sarah Deas: Inclusive models.

The Deputy Convener: Dr Fancey, do you have a word?

Dr Fancey: I could go no further than “collaboration”—that is exactly the right word.

The Deputy Convener: Do you have a final word, Ms Hanna?

Linda Hanna: Was it a sentence or a word?

The Deputy Convener: I allowed a sentence.

Jackie Baillie: You can give us a paragraph.

Linda Hanna: A whole paragraph? It is about collaboration, but it is also about really investing in the economy. The creation of the strategic board gives us an opportunity to be collectively ambitious for Scotland and to ensure that we really invest in that ambition. Our job is to ensure that we work together, but we also need collaboration and investment.

The Deputy Convener: Thank you very much—you have all given us very full answers, which we appreciate and which will be useful for our report. I draw the session to an end, and we move into private session.

11:59

Meeting continued in private until 12:39.

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