



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 11 November 2015

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CONTENTS

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PRE-BUDGET SCRUTINY 2016-17	1
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ECONOMY, ENERGY AND TOURISM COMMITTEE
28th Meeting 2015, Session 4

CONVENER

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

DEPUTY CONVENER

*Dennis Robertson (Aberdeenshire West) (SNP)

COMMITTEE MEMBERS

Chic Brodie (South Scotland) (SNP)

*Patrick Harvie (Glasgow) (Green)

Johann Lamont (Glasgow Pollok) (Lab)

*Richard Lyle (Central Scotland) (SNP)

*Gordon MacDonald (Edinburgh Pentlands) (SNP)

*Lewis Macdonald (North East Scotland) (Lab)

*Joan McAlpine (South Scotland) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Forbes Duthie (Highlands and Islands Enterprise)

Adrian Gillespie (Scottish Enterprise)

Alex Paterson (Highlands and Islands Enterprise)

Iain Scott (Scottish Enterprise)

CLERK TO THE COMMITTEE

Douglas Wands

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 11 November 2015

[The Convener opened the meeting at 09:45]

Pre-budget Scrutiny 2016-17

The Convener (Murdo Fraser): Good morning, ladies and gentlemen, and welcome to the 28th meeting in 2015 of the Economy, Energy and Tourism Committee. I welcome members, our witnesses and those in the public gallery, and I remind everyone to turn off, or at least switch to silent, all mobile phones and other electronic devices so that they do not interfere with the sound equipment. We have had apologies from Johann Lamont and Chic Brodie. Patrick Harvie and Joan McAlpine are running late and should be with us shortly.

Under agenda item 1, we will continue to take evidence as part of our pre-budget scrutiny of Scotland's budget 2016-17. Today, we will hear from two enterprise agencies. I welcome the first panel of witnesses: Alex Paterson, who is the chief executive of Highland and Islands Enterprise, and Forbes Duthie, who is HIE's director of finance and corporate services.

We have about an hour for this session, as I will suspend the meeting at around 10.45 for the remembrance commemoration. There are a number of issues that members will want to cover in that time, so I remind members to keep their questions short and to the point. If answers are similarly short and to the point, that will be helpful to us in ensuring that we cover all the topics in the time available.

I will start by asking about the budget process. We are in a slightly unusual position this year because the budget is late, for reasons that are well understood. We now believe that the budget will be published on 16 December. How will that affect your budget process? What sort of timescale are you looking at with regard to finalising your own budget for the coming year?

Alex Paterson (Highlands and Islands Enterprise): Thank you for the invitation to meet the committee again; it is good to be here.

You are right: we are in a slightly different and somewhat unusual situation at this point in the year, given that we do not yet have a budget for next year. We are doing a number of things to prepare for whatever budget might come our way, and I will say a little about the process.

We honestly do not know what our budget for next year will be. You will have seen in our operating plan that we have projected forward for 2016-17 and 2017-18 our budget for the current year. We know that all organisations will probably be asked to look closely at their budgets, so we are planning internally for different scenarios.

With regard to the process, we will engage with our sponsor team over the coming weeks in the lead-up to the budget announcement to get some clarity on what our 2016-17 budget will be. That will then form an integral part of our business planning process for 2016-17, which the HIE board will consider in the new year, leading up to the publication of our operating plan for the year—we hope—by the end of March next year.

We have reached a bit of a hiatus as things are not clear. We have a number of commitments; given the business that we are in, we make multiyear commitments, and we are managing those carefully at present to ensure that we are well placed to handle any scenario that emerges from the budget discussions. Forbes Duthie may want to give some more detail on that from a finance point of view.

Forbes Duthie (Highlands and Islands Enterprise): As Alex Paterson said, we have run through some scenarios for the budget alterations that may come our way. The reality is that, over the past 10 years, there has been a degree of volatility in HIE's budget. We are used to budget increases and reductions, and we will adapt to our budget and manage the process as best we can.

As Alex Paterson said, we have a number of large projects and numerous small projects, and we work closely with our clients—particularly the large ones—on the phasing and expenditure for those projects so that we can build some flexibility into our budget as required.

The committee will be aware of the issues with strategic forum savings, which are a regular feature of our discussions. We have delivered those savings over the past three years, and a number of them are recurring. In expectation that the new budget will not have strategic forum savings, there is a recurring element already built into our budget, which we would hope to use for expansion and development but which could be used to cover some cuts. We have a number of plans and thoughts in our minds that may be required if the budgets are reduced in any way.

The Convener: Looking at the financial overview that you have provided to the committee, I see that there are four key strands of spending. Those are:

"Supporting businesses & social enterprises ... Strengthening communities & fragile areas ... Developing growth sectors"

and

“Competitive & low carbon region”.

If there were a substantial change in the budget, either up or down, would any of those areas be likely to be more or less affected?

Alex Paterson: I have two thoughts on that. Certain things are easier for us to flex. In large projects, particularly those that we deliver at our own hand, there is more scope to flex or to phase than there is in those projects that are led by the private sector and to which we have already committed.

Of those four categories, the last two are probably the ones in which we have more scope to tweak things ourselves. Having said that, I remember saying to this committee many years ago that we try to find alternative sources of funds as well. We have new structural funds programmes coming through, which we will use to invest in a number of activities.

We are investing in new ways of delivering some of our services. In recent years, we have made a significant investment in digital technology, which is having a big impact on how we deliver our business and effect savings in our operating costs.

With regard to your general question, convener, we will be able to tweak or adjust budgets largely around large projects the delivery of which we control.

The Convener: I have another question on a slightly different topic. The committee has been undertaking an inquiry into fair work, in which we have looked at quality-of-work issues, wages, terms and conditions and so on; we have just concluded our evidence taking. One interesting issue that has come out of the inquiry concerns the extent to which enterprise agencies look at those issues when they are agreeing, for example, to support for projects from foreign direct investors.

Is that something that HIE has come up against? In considering potential foreign direct investment, or indeed investment from anyone in a particular area, do you look at quality-of-work issues? Does that affect your judgment on whether such projects will get support?

Alex Paterson: Yes, we do look at those issues. Our work is about not just creating jobs but the quality of those jobs. One indicator that we monitor is the level of the salaries that are associated with the jobs that we support the creation of. We know from our analysis that the salaries for the jobs that we support are higher than the average salaries for jobs across the region or in the localities in which those jobs are based. In some industries, wages are lower than

we would like, but as an organisation we are definitely focused on creating good-quality jobs.

With the increased focus on fair work, including the business pledge and the inclusive growth agenda, there is arguably even more emphasis in that respect than there was in the past. That is very much part of what we do. All our account managers who deal with our account managed companies are active in bringing the fair work agenda and the business pledge and its obligations to the attention of their businesses, social enterprises and communities. That is absolutely at the heart of what we do.

The Convener: Thank you—that is helpful.

Dennis Robertson (Aberdeenshire West) (SNP): Good morning. I will follow up on the convener's line of questioning before I move on to my own question.

The convener asked about the areas that you look at before entering into contracts. Do you look at companies that may be trying to ensure that there is no one using zero-hours contracts? Do you look at some of the ethical questions around support, especially with regard to foreign investment?

Alex Paterson: Yes. As an employer, we have no zero-hours contracts, and that aspect is an important part of the business pledge roll-out. The whole fair work agenda and its various dimensions are an important part of what we do.

On the ethical questions, I cannot think of a recent situation that we have had in which an ethical issue has arisen, in the sense of it involving an activity that we have thought that it might be questionable to support. I am not sure that Forbes Duthie can think of one, either. That would certainly be a factor if such a situation ever arose.

Dennis Robertson: That is good.

HIE still has ambitions to be a leader in marine technology, including offshore wind, wave and tidal energy. Can you explain a little further what your ambition is with regard to meeting your targets, especially in relation to the low-carbon area that you mention in your submission? Perhaps you can outline some of the challenges that you face, given that that area is still subject to a lot of challenges—we will just say “challenges”—at present.

Alex Paterson: We have for a long time taken the view that Scotland, and the north of Scotland in particular, is incredibly well positioned for marine renewables and the whole renewable energy sector. It has probably taken longer for those things to come through than we might all have anticipated, but we are still hugely committed and hugely positive about the marine renewables opportunities.

For example, the investment that we and others have made in ports and harbours and infrastructure across the region makes us incredibly well placed to handle the offshore wind projects as they build out. We and many others have invested over many years in wave and tidal developments.

You can see the MeyGen project building out in the Pentland Firth: it is the first commercial tidal array, which is fantastic news. We have had some bumps on the road with wave energy, but we have created Wave Energy Scotland, which is now supporting innovative investment in wave technology. In turn, we hope that that will lead in time to commercially deployable devices. We remain very committed to and optimistic about the prospects for marine renewables.

There are two challenges at present. One is the time that it is taking for all that to move forward, although there are reasons for that. The second element that is challenging at the moment is the regulatory environment. I am referring to the renewables obligation and the lack of certainty over when the auctions for contracts for difference and feed-in tariffs and so on might come in. That uncertainty is undoubtedly affecting some of the thinking at the moment.

That aside, we remain very optimistic about and committed to the offshore wind opportunities that exist or are imminent. We can see the tidal devices being deployed. On wave energy, we will have to take a step back in order to move forward over the coming years.

Dennis Robertson: That sounds very challenging. You mentioned the renewables obligation. Have you had discussions with any potential investors who have made the decision not to invest because of the uncertainty or because of the announcements on the renewables obligation?

Alex Paterson: I cannot say that I personally have had discussions with people who have decided not to invest. I have had conversations with businesses that would like some certainty. One said to me, "Even if the regime or the environment that we end up with is not one that we particularly want or like, at least we'll be clear about what the framework actually is." It is the uncertainty that is the issue, and the sooner we can get some clarity, the better.

I am not aware of people deciding not to invest—it is more that we might be sitting still for a wee bit until we are clear on what the environment might look like.

Dennis Robertson: What can you do to try to attract investors at present, given that Amber Rudd recently announced the possibility that the United Kingdom Government will support

renewables outside the UK while withdrawing the obligations within the UK?

Alex Paterson: We would want some certainty around the UK situation.

You asked what we are doing. We are working with many organisations. The Beatrice field will be built out, and there are organisations that are looking at the Moray Offshore Renewables project, which would benefit from a contract for difference auction. We are continuing to work with those businesses, and we are doing a lot of work on the supply chain and on helping local companies to be ready.

As I said a minute ago, we have invested with others in significant infrastructure projects. That means that, when decisions are taken, we are ready to go and nothing else needs to be done to take advantage of the opportunities. No major investments are needed because the facilities are there, for example at Nigg and Invergordon.

It would be helpful to have clarity on the regulatory regime, but that is a wee bit out of our control. My energy team and others, including Scottish Government ministers, are picking up that issue with the UK Government. We continue to work on the basis that good projects are there and that positive decisions will be taken. We want to make sure that Highlands and Islands and other Scottish companies, as well as the facilities, are as well placed as they possibly can be to pick up that business.

10:00

Dennis Robertson: That is excellent.

How much have you invested over the current budget year and how much are you prepared to invest in 2016-17?

Alex Paterson: In energy?

Dennis Robertson: In energy.

Alex Paterson: We have that figure. Do you have it to hand, Forbes?

Forbes Duthie: Next year, we will invest £13 million through Wave Energy Scotland. There are a number of other renewables projects. I do not have the exact figure for that, but it is probably about £5 million to £7 million, which is quite significant within the scale of budget that we have.

Dennis Robertson: Is the renewables investment in onshore and offshore projects?

Alex Paterson: Our investment in energy is going either into businesses in the sector through our business support or on infrastructure such as ports and harbours in the Highlands and Islands that will support the energy sector. We are not investing in wind farms or similar facilities.

From memory, the half-year investment figure is about £3 million, which is a bit less than the figure was for the previous year and the year before that. That probably reflects the fact that, over the past couple of years, we have made significant investments in ports and harbours, including those at Nigg, Scrabster and Invergordon. We would not necessarily carry on making such investments. I guess that my argument is that we do not need to have the same level of spend every year, because some of the major investments have been made. The investment in Wave Energy Scotland and the MeyGen project up in the Pentland Firth continues.

The other issue on energy is that we are spending a lot of time working with our businesses that are being affected to some extent by the downturn in oil and gas. We have about 80 account managed businesses that derive at least some of their income from that sector, so we are doing a lot of work to understand their situation and how we can help them to diversify into new areas of opportunity. Those activities do not necessarily carry the multimillion-pound price tags that port and harbour investments might have.

Dennis Robertson: You mentioned multimillion-pound price tags. You have to consider low-carbon targets and try to encourage the use of more renewables. Do you deploy renewables when you do new builds, whether that be school campuses or whatever? Are you using solar or some form of wind-generated power?

Alex Paterson: Yes, we are. For every new build that we undertake, we want to use the Building Research Establishment environmental assessment method—BREEAM—which is an excellent standard. For example, if I took you to the new Inverness campus, you would see that is a renewable energy-driven campus. We have in place sustainable urban drainage systems—SUDS. I do not think that we have installed a turbine on any of our buildings but, where possible, maximising the use of renewable sources of energy is a fundamental part of what we do.

Forbes Duthie: We have a number of buildings with solar panels and suchlike, but that is not widespread as yet. Our priority has been to fund the industry and the infrastructure.

Dennis Robertson: Do you still find the grid charging regime challenging? Would you like to see that being addressed so that some of the projects can be taken forward?

Alex Paterson: Yes. I might offer to come back to you with a specific view on the charging mechanism. All that I will say this morning is that the charging regime for energy generated on the periphery has been an issue. Grid connections

and grid capacity also continue to be an issue. The more we can facilitate access to the grid for some of the developments, particularly those in the islands, the better it would be.

Dennis Robertson: The issue is not about accessibility to the grid, is it? It is about the extortionate cost of the unfair regime that is in place.

The Convener: Not that you would want to express an opinion on the matter, deputy convener.

Alex Paterson: Can I take that as a statement rather than a question?

Dennis Robertson: I was making a statement of fact rather than expressing an opinion.

The Convener: As we know, the committee has considered those issues on many occasions.

Lewis Macdonald has a follow-up question.

Lewis Macdonald (North East Scotland) (Lab): I will follow up the energy questions. You mentioned the impact of the downturn in oil and gas and you said that you have 80 account managed businesses across the Highlands and Islands that derive income from that sector. There are some obvious risk areas. Have you done an assessment of the impact of the downturn on the economy of the Highlands and Islands?

Alex Paterson: We are doing that currently. We know from data from Skills Development Scotland that about 2,300 redundancy notices have been issued to workers in the sector in the Highlands and Islands. We understand that close to 900 of those are associated with construction projects that are coming to an end, but that still leaves a significant number. From our monitoring of businesses, we know that around another 190 jobs are at risk, so the figure is not insignificant.

We are doing a bit of work on the impact in Shetland, which is where most of the redundancy notices have been issued. We have commissioned an economic impact assessment that, subject to all the key players being able to get information to us, we hope will be concluded close to the end of this month.

Lewis Macdonald: That is helpful. I was going to ask you about Shetland, as some very disappointing decisions have been made by major oil companies in relation to landfall for hydrocarbons and so on. The other island issue that I am interested in hearing your view on is fabrication at Arnish in Stornoway, which I know well. The fabrication sector is under significant pressure, but I presume that there are significant opportunities to redeploy those jobs and skills to the renewables sector.

Will you comment on both Arnish and the situation in Shetland? Are you looking ahead to how you can promote that skills transfer in the next 12 months?

Alex Paterson: Arnish is a terrific site and a lot of investment has been made in preparing it, but it has been a challenge to market and populate it. We have one anchor tenant from the energy sector there, but Arnish is suffering from the wider ailments of the sector. We see Arnish as an important location for energy and marine opportunities, although its scope perhaps goes wider than that, so we are actively promoting it, and we have some current interest in it. Arnish is well placed for renewables and for oil and gas developments west of Shetland, which may play to west coast ports going forward.

As a side effect of what has happened in the oil industry, many skilled people have become available, and some companies in Caithness and elsewhere, where recruitment has traditionally been quite difficult, are now able to recruit. However, because many people who work offshore come from across the Highlands and Islands, there are unseen effects from what has happened in the oil and gas sector—in particular, the effect on local communities of people losing their jobs and the income not coming back as much as before.

We are seeing a number of jobs being created and, whenever such situations arise, we work with Skills Development Scotland to look at opportunities. However, the downturn is undoubtedly having an effect, and the economic impact assessment of Shetland, where it is particularly focused, will give us a good handle on what more we need to do.

Lewis Macdonald: Is it fair to assume that, in the budget priorities that you have identified, the work that you are doing on renewables goes side by side with work on oil and gas and dealing with the impact of the downturn?

Alex Paterson: Yes. In our work on oil and gas, we will work primarily with businesses in the sector. We are doing some work with Scottish Development International on the international opportunities that exist for oil and gas companies, and that is largely where that will come from. Our work in the renewables sector is based partly on what we have done to date on infrastructure development and partly on the Wave Energy Scotland project, so there is a focus on taking forward new, innovative ideas that we hope will underpin the sector going forward.

Gordon MacDonald (Edinburgh Pentlands) (SNP): This week, the BBC published an article entitled “The New Highlands at 50”. In referring to energy, it contains two comments. Bearing in mind

that there is now more of a focus on renewables, I note that the article talked about how HIE had “sunk bore holes near Brora in search of coal seams.”

I just wonder what that was about. The second comment was about possible energy from the North Sea as discussed in the Moray Firth industrial credibility study.

Will you say something about possible energy from the North Sea and say why you were sinking boreholes for coal in Brora?

Alex Paterson: The convener asked me to be brief in my responses. I would also like to know what we were doing with boreholes in Brora. *[Laughter.]* I suspect that that was way back in the earlier days of the Highlands and Islands Development Board.

Gordon MacDonald: Oh, right. I assumed that it was recent.

Alex Paterson: I assure members that neither the boreholes nor the other thing that you talked about has featured in our recent business plans.

The Convener: If you do get any more information, perhaps you could write to us.

Alex Paterson: If we strike coal in Brora, you will be the first to know.

The Convener: Before we leave energy, I want to follow up on a point that came up during a debate in the chamber yesterday. Fergus Ewing told us that the Saltire prize cannot now be won because no company can meet the qualifying criteria for it to be awarded by 2017. He said that the Scottish Government and its advisers are looking at reshaping the prize, and there was some discussion about how, instead of £10 million being spent on it, the money might be better spent in other ways to support marine energy. Does HIE have a view on that?

Alex Paterson: To be honest, that is not something that I have been close to, so I hesitate to offer a view. All that I would say is that we have seen the Government supporting new initiatives such as Wave Energy Scotland and it is perhaps important to review things that might not be working as was envisioned and direct the money elsewhere.

I am not sufficiently briefed on the Saltire prize to offer more than that.

The Convener: Okay. We go back to Lewis Macdonald.

Lewis Macdonald: Gordon MacDonald mentioned “The New Highlands at 50” and, as HIE mentions it in its submission, it might be appropriate to comment on the fact that it is 50 years since the creation of the HIDB. Your submission says that there has been a

transformation in those 50 years, which is absolutely right. Will you summarise that and, looking forward, say what HIE sees as the future development of economic and social change in the Highlands and Islands?

Alex Paterson: The HIDB was formed on 1 November 1965. In describing the transformation, I might begin by saying how things were in 1965. That is summed up in the phrase “the Highland problem”, but it was largely about never-ending depopulation, economic indicators such as unemployment and employment rates being well below the Scottish figures, the industrial base being very narrow and a lack of investment in infrastructure during many preceding decades.

During the past 50 years, through the work of the HIDB, HIE and local government and because of huge Government investment in infrastructure, a number of things have changed. The population has increased by 22 per cent and a large percentage of Scotland’s population growth in that time has come through the Highlands and Islands. We are sitting today at just under £470,000—sorry, I mean 470,000 people. That is not our budget for next year, I hope. *[Laughter.]*

The population has grown and the industrial base has broadened out. Aquaculture, agriculture, tourism and food and drink are still vital, but we now also have the energy sector, renewables and life sciences, and more than 4,000 people are employed in business services. On many economic indicators including unemployment, employment and youth unemployment, the performance of the Highlands and Islands is better than the national averages. All of that is good.

Last week, a journalist asked me what I think the biggest change has been, and I offered two. Population is the big issue, and the second thing is perception. Back then, the perception was that, if someone wanted to get on in life, they had to get out of the Highlands. The perception now is different. We have done some research among young people and they are much more positive about the opportunities, careers and living in the Highlands and Islands. There has been a significant transformation.

On infrastructure, we did not have any of the causeways or bridges back then that we have now. That has undoubtedly been helped by North Sea oil and so on.

10:15

What are the priorities going forward? I offer you three thoughts. First, not every part of the Highlands and Islands has enjoyed the same level of economic growth. I am acutely aware that the benefits of development have not been equally

shared, particularly in some of the more remote areas. We need to do more in those places.

The second issue is not just population, but an aspect of population: the demographic challenges. We held a workshop this week for local authorities and many national and local agencies to look at our youth research and how we can make the region better for young people. That is important because we still have an imbalance in the demographic.

The third issue is that we are no longer trying to solve “the Highland problem”. Instead, we are about ensuring that we seize Highlands and Islands opportunities. Whether they are digital or in some of the new industry sectors that are coming through, that needs to be our focus.

Lewis Macdonald: I would like to pursue one aspect of that. The proposition of inclusive growth affects at least two if not all three of the things that you highlighted. What is your understanding of inclusive growth? How does it apply to the Highlands and Islands? Does it simply involve a change of label or title or does it involve a change in the fundamentals of what you are seeking to achieve?

Alex Paterson: In one sense, a lot of the work that we have done over many years has been around inclusive growth, although there are new things, too. You will see in our submission that we tend to define inclusive growth in a number of ways. There is geographic inclusion, and I commented a moment ago that some areas, particularly the remoter areas, do not have the same rate of growth as others. We need to try to address that.

There are also issues around fair work and social issues. We promote the business pledge and the wider fair work agenda, and I see an awful lot of what we are doing around digital connectivity—which reduces the effects of distance and geography—as part of inclusive growth. I also see the work that we are doing with young people as being part of the inclusive growth agenda. I can talk about our graduate programme, but we have also run an accelerator programme for the creative industries, as part of which we have helped 200 youngsters—youngsters who did not have an opportunity—to move into career opportunities.

There is our strengthening communities work in general, and our work with communities in many of our most remote and fragile areas is all about inclusive growth. However, some of the mainstream stuff is also about inclusive growth. For example, the work that we do to invest in businesses to create jobs in some of our remoter areas is all part of the agenda. A few weeks ago, I was out in Barra, where we are supporting a new

business that is creating four or five new jobs. Something similar in Inverness or Glasgow would equate to many more new jobs. That is inclusive growth, as it helps communities to come together.

We define what we do quite broadly, whether it is geographic, social or digital and so on. However, some of the new aspects, which lie in the promotion of the business pledge and the fair work agenda, are perhaps more overt than our work has been before.

Lewis Macdonald: I guess that part of that is about the proposition of account managed communities. The ambitious target that you set for that was to engage with 40 to 60 communities, and you have reached 40. Will you comment on the success of that and the challenges that you face in extending it further? How do you see it rolling out in future?

Alex Paterson: As of today, we account manage 51 communities across the Highlands and Islands—the number has increased. What we have done in account management generally, including with communities, social enterprises and businesses, is to refocus our approach. Last time we were with the committee, we spoke about the very positive evaluation that we had of account management, and we have extended that.

The challenges are largely to do with capacity building with communities. There are some fantastic examples of communities that are doing a range of things, such as building houses and putting in leisure facilities in their harbours, and we are investing quite considerably in community capacity building by helping such projects to get off the ground and supplementing the skills and expertise that communities have. We have grown the number of account managed communities from 40 last year to 51.

Lewis Macdonald: Thanks very much.

Gordon MacDonald: You mentioned the demographic imbalance. Although it is fantastic that the population in the Highlands has grown by about 90,000 over the past 50 years, the BBC article that I mentioned says:

“The population is tilted towards the old, and on course to become more so.”

What are your views on that? What effect is depopulation among the young having on economic growth in the area and on its ability to attract companies and encourage them to grow?

Alex Paterson: I am sorry, but I missed your first question. I heard your question about attracting companies. What was the first one?

Gordon MacDonald: It was about the BBC article, which says:

“The population is tilted towards the old, and on course to become more so.”

Is that your view? If so, what effect is that having on economic growth in the area?

Alex Paterson: The demographics of the Highlands and Islands are not dissimilar to those of Scotland in that there is a growing elderly population. The demographic profile of the Highlands and Islands suggests that there is a slightly larger number of older people, hence my comment about our having an increased focus on attracting young people.

The youth situation is improving. It is clear from the most recent census period that the number of youngsters who are leaving or who think that they will have to leave is falling. Things such as the University of the Highlands and Islands and the roll-out of broadband will help with that.

On the area's attractiveness to companies, my sense is that companies recognise that, although it might take a bit longer to recruit the highly skilled staff that they want, they will get them and, once they do, their retention levels will be extremely good. I could take you round a number of businesses that have had that experience.

We do not have as large a labour pool as Edinburgh has, so recruitment takes a bit longer. However, our experience with some of the big companies in the life sciences and business services sectors is that they are attracted to the Highlands and Islands and that the people are there. If they give a bit more time to the recruitment process, they will find the staff they need.

Recently, a small software company set up an office in Inverness, which created 17 software engineering jobs. It thought that it could get the expertise that it needed in Inverness and it managed to do that. It might take a bit longer, but companies that recruit in the Highlands and Islands will be rewarded with retention and commitment.

Gordon MacDonald: That is good to hear.

You mentioned the importance of digital roll-out and superfast broadband to your ability to retain young people in the area. In your submission, you mention that 135,000 premises now have access to superfast broadband. What proportion is that of the total number of premises in the Highlands and Islands?

Alex Paterson: It is just over half—it is between 50 and 60 per cent. I think that the figure is now closer to 140,000. Close to 100,000 of them have access to superfast broadband as a result of the programme that we are running and the balance have it as a result of BT's commercial roll-out.

The programme is moving quickly. At the start of last year, 4 per cent of premises in the Highlands and Islands had access to superfast broadband; today, the figure is 54 per cent and, by the end of next year, it will be at least 84 per cent. The growth in the coverage has been massive.

In answer to your question, 54 per cent of premises in the Highlands and Islands have access to superfast broadband.

Gordon MacDonald: In your submission, you highlight the importance of community broadband, and you mention GigaPlus Argyll. How important is community broadband in filling the gaps that BT is not prepared to fill? What is the timeframe for rolling out community broadband across the other remote regions of the Highlands?

Alex Paterson: Not everywhere will be covered under the current arrangements with BT. Discussions are taking place about how the arrangements might be extended so that the fibre can go further, but community broadband Scotland has a critical role to play in working with communities that want to develop solutions in areas that the fibre will not necessarily get to.

Community broadband Scotland is up and running and open for business, and it already has projects in the pipeline that will cover about 3,500 premises. The GigaPlus Argyll project is important because one of the things that CBS can do is to ensure that, instead of having hundreds of small projects—CBS is happy to work with individual communities—we look at aggregating them to make it more attractive for a provider to come in with a viable technical business solution. GigaPlus Argyll, which is the first project of that type, covers parts of seven islands in Argyll.

As I said, community broadband Scotland is open for business and it is working across Scotland—indeed, I think that it is dealing with 89 different communities. To be honest, I think that the challenge that it faces lies in knowing exactly where the fibre will finish and where it will be easy to operate, but that is becoming clearer now that the modelling has been done. The next aggregated project will be in Fife, where we have just gone out to formal consultation with a view to developing a similar project.

Gordon MacDonald: You mentioned the pan-Scotland digital tourism programme. What does that hope to achieve?

Alex Paterson: It is focused on the tourism industry. I cannot remember the figure, but a high percentage of tourism bookings and so on are made online, and there is an expectation that such things will happen online. The programme is an expansion of a pilot that had two components—first, one-to-one work support for tourism businesses and advice on developing a digital

strategy, and secondly a digital grant that was available to a number of businesses for implementing significant step changes to their digital functioning. That model, which was piloted with about 60 businesses in the Highlands and Islands, is now being taken forward nationally and we, Scottish Enterprise and VisitScotland are working together closely on rolling it out.

Joan McAlpine (South Scotland) (SNP): Convener, I apologise to you and our witnesses for my late arrival.

I have noted the advances that you have been making on broadband, but what about mobile connectivity? That has not been mentioned. I wonder whether you can highlight the challenges that you face in that area.

Alex Paterson: My view—this is also the Scottish Government's view—is that coverage for mobile should be as good as it will be for fixed, but we have not had the same sort of narrative in that respect or the same interventions to support mobile. This is the single biggest issue for all the agencies in the Highlands and Islands, and at the convention of the Highlands and Islands, which was held last month in Elgin, we got all the mobile operators together in one room with the local authorities, agencies and so on. As a result of that, the Deputy First Minister has asked us to try to pull together a coherent way forward for mobile connectivity across the Highlands and Islands while the Scottish Government's digital team will work closely with others to focus on the rest of Scotland.

I have been having conversations with all the operators in order to understand their coverage plans and the challenges that they face in rolling them out, and we have been working with all the local authority chief executives in the Highlands and Islands. They have made it clear that they, too, have a role to play here, because of issues such as site locations and mast heights. In a matter of weeks, I will have met them all. I hope that we can pull together a plan that will give some clarity to how mobile connectivity can be rolled out and that will allow us to describe what is happening in the same way as we describe the current fibre roll-out. That work is very much live and active.

Joan McAlpine: Do you have a budget for that work?

Alex Paterson: No. I am doing it myself, and I come very cheap. [*Laughter.*] I do not mean to be flippant. At the moment, this is all about me and my digital team having the conversations about what is possible and what will be required to make delivery happen. I suspect that some interventions will be required, but I think that we need to stop complaining about the mobile operators not

covering the Highlands and Islands and about our always being the 5 per cent that never gets connectivity. We have had an incredibly encouraging engagement with those operators, and they have been willing to work with us on a plan for addressing the problem.

10:30

The Convener: I met Ofcom recently, and I am sure that it does not have a programme to force the mobile companies to share masts. That is part of its initiative, is it not?

Alex Paterson: Yes, that is part of its initiative. Two of the operators have a joint venture company that is looking at upgrading masts and extending the masts' footprint across the UK. Mast sharing is an important part of the way forward.

The Convener: Gordon MacDonald asked about population. I regularly visit Inverness, and the population growth in Inverness and the Moray Firth area over the past 20 to 30 years has been remarkable. To what extent has the population growth in the Highlands been concentrated in that area while some of the more remote areas on the west coast and in the far north have not really seen much growth?

Alex Paterson: The answer to that question is yes and no. Inverness has grown rapidly but, if we look at percentage population growth, we see that the figures for the Highland Council area and Orkney and Shetland are way above 10 per cent plus. Between the previous two censuses, the Western Isles population grew by 4.6 per cent. There have been different rates of growth, but the rate of growth in the Western Isles is similar to the national rate over that period.

The one part of our region in which the population declined between the previous two censuses is Argyll and the islands. Even in Argyll and the islands, however, the populations in places such as Oban grew quite substantially, whereas in other parts, such as mid-Kintyre, they did not. That is largely what prompted the creation of the Argyll economic forum. The issue in that area is not just to do with population decline or young people choosing to leave to study in Glasgow or whatever, which is understandable; it is the working-age population that is a challenge there. There are particular challenges that we are working on with Argyll and Bute Council and others around Argyll. However, across the rest of the Highlands and Islands, the population has grown in each of the local authority areas.

Richard Lyle (Central Scotland) (SNP): I have been listening to you, and I wish you a happy anniversary.

A number of years ago, I saw a documentary about the Highlands and Islands and what they were like. Your story has moved on since then. What are you doing to improve the region's image to the world? Is anything planned to update that? Is a documentary or something else planned to show what has been done in the past 50 years?

Alex Paterson: We are shamelessly taking the opportunity of the 50th anniversary to do that. We have done a fair amount of work with the local and national press, as well as with some international press, to get the message out there. I have been asked to give the St Andrew's day lecture in Brussels later this month. We want to tell the story through such mechanisms.

I will mention three things. First, I would be very happy to send each of you a book that we have just produced that tries to weave through its pages how the region has evolved. It tells the story through the eyes and the words of people who live and work in the region now. We will use that book.

Secondly, we have produced a timeline. I invite members to go to our website, where they can look at what has happened through the decades and through different themes. Again, we will use that to promote the Highlands and Islands.

The third thing has completely gone out of my mind. We are using the opportunities of media coverage, the book and the timeline. Oh, yes—the third thing is that the First Minister will introduce a reception that we are going to host in Parliament, to which members will have been invited.

Such things are useful, and they supplement what we would normally do in working with Scottish Development International to promote the region.

Richard Lyle: I look forward to that. I remember seeing that excellent documentary a number of years ago.

Let us talk about jobs. I am not taking anything away from what you have done—you have exceeded all the targets since 2011. You have exceeded every target that you have been given, and I compliment you on that, but have you taxed yourselves enough? As the chief executive of HIE, what do you intend to do to get your staff to do better? Most companies have targets.

When I worked for the Royal Bank of Scotland, I had targets and there was a carrot-and-stick approach. How are you motivating your staff? Do you have regular meetings with them at which you say, "We've done this, we've done that; we've exceeded this, we've exceeded that. Let's do better"? What are you doing to get your staff to do better?

Alex Paterson: I have a few thoughts on that. We have exceeded or met our targets, and I am

delighted about that. You will also have seen that, over the course of that four-year period, the targets have not remained static. The targets for turnover, growth and international sales have increased. We are pushing staff in that regard.

I have to be honest and say that this is quite a tough year. Businesses are finding it more difficult than they have for some time. We recently reviewed the half-year position and found that we will need to push to hit some of the targets this year. It will not be as easy to do that as it has been previously. All our business units have their own set of targets that we are asking them to meet.

The second thing that we have introduced this year is a recognition that we need to ensure that, underneath the numbers, we are doing the right thing. Given the new focus on innovation and internationalisation that has come through Scotland's economic strategy, we have invested considerably in both those activities and we are asking our staff to do more in those areas. Not all of that activity will hit a top-line turnover target readily, but we want more businesses to be active in innovation and to work towards or be active in international trade. We have developed a number of tracker mechanisms or indicators—you might have seen them in our operating plan—and we are asking each of our business units to ensure that we are doing more of the right things. That approach will make its way up to the top-line targets.

I hope that that answers your question and gives you a sense of what is happening.

Richard Lyle: Yes. For the sake of time, I will keep my third question brief.

The annual report says that the review confirmed that many of your workforce

“are meeting and, indeed, exceeding the expectations of their clients”

but that

“there are others who have some way to go in achieving what is expected of them.”

The evaluation suggested that, on some occasions, current salaries may be insufficient to attract

“candidates of the appropriate calibre”.

Do you pay a bonus if someone exceeds their target? If not, are you considering changing your salary scales to attract better-quality people or improve the workforce in your organisation? I hasten to add that I am not asking you to sack anyone.

Alex Paterson: No, we do not pay bonuses. We operate within the Scottish Government's pay guidelines—that is a given. You would expect the chief executive to say this, but the staff that we

have are outstandingly good. We have people in the organisation who really are experts in the things that they do.

I think that the source of your comment was last year's account management review, which highlighted the consultants' view that it might be challenging to attract people with the requisite skills. Since that review, there have been one or two changes in account management and we have been able to attract one or two account managers of outstanding quality, so I am not concerned about that area.

The other thing that we have done, which is linked to that, is based on the fact that the review asked whether we were certain that we had our best account managers working with our best, highest-growth businesses. We have conducted a major overhaul of account management and have stratified the account management portfolio slightly differently. We now have a smaller number of account managers but they are dedicated account managers, and we are able to match the expertise more effectively to the businesses that have that growth potential.

I am comfortable with the calibre of the staff that we have. It is outstandingly good in many cases. Further, we have managed to align the resources slightly better to the needs of the companies, which is in line with one of the key recommendations of the evaluation.

Richard Lyle: I compliment you on that.

Patrick Harvie (Glasgow) (Green): I apologise for being a bit late, but the trains were slightly chaotic in Glasgow this morning. I am sorry if I end up going over things that you covered before I got here.

It is difficult for all of us to do pre-budget scrutiny, given that we do not have the budget to look at. That is as true for you as it is for us. We learned yesterday that the budget will be published just a day before Parliament breaks up for the Christmas recess. When we take that document home for our Christmas reading, what should we be looking for—particularly in the light of the fact that cuts are likely to be coming down the line from the UK Government—in relation to affordable housing, education and skills, transport and the other things that are outwith the enterprise budget? What decisions should we be considering to see whether the Scottish Government's budget will make your agenda more deliverable?

Alex Paterson: Do you want me to answer that?

Forbes Duthie: Feel free.

Alex Paterson: The thing about economic development is that it does not happen in isolation from everything else. The critical things that affect

the economic performance of the Highlands and Islands include infrastructure investment. In that regard, we have commitments around the A9 and the rail upgrading from Inverness to Aberdeen. The commitment to renewables is also important. Although investment in that area is slightly slower than everybody hoped it would be, I am of the opinion that there are still huge opportunities in that regard.

We know that housing—including affordable housing—is a constraint to growth in many parts of the Highlands and Islands. This week, we had a workshop with many partners that looked at the youth agenda, which is an area in which access to affordable housing is a major challenge—it is one of the top five challenges that young people face across the Highlands and Islands.

The focus on youth is important because, behind the good population figures, there is a demographic challenge. Action to encourage the development of education and further support for the University of the Highlands and Islands are a couple of important things in that regard that I can think of off the top of my head.

Patrick Harvie: We know that it is unlikely that there will be more of everything. Can you outline any particular concerns or suggest areas that you think might be troubling or opportunities that you think should be prioritised by the Government?

Alex Paterson: Probably not beyond what I have said. Housing and infrastructure are critical issues for us. Transport networks are vital as well, whether we are talking about ferries or about other modes. I should probably give the issue more thought and get back to you with a sensible answer, but those areas seem to be the ones that obviously impinge on what we do. The area of skills is important, too.

The Convener: That brings us neatly to the end of our time. I thank both of you for coming along to answer our questions this morning. It has been helpful.

I now suspend the meeting for the remembrance day commemoration.

10:42

Meeting suspended.

11:15

On resuming—

The Convener: Our second panel of witnesses is from Scottish Enterprise. We are joined by Adrian Gillespie, managing director for operations, company growth, innovation and infrastructure, and by Iain Scott, chief financial officer. Welcome to you both. We have until about 12.30 for this

evidence session. I remind members to keep their questions short and to the point, and if the witnesses could make their answers short and to the point, that would be helpful for getting through the topics that we want to cover in the time available.

I will start off with a process question. As you know, the timetable for this year's budget is later than normal. We have been told that the Scottish Government's budget will be published on 16 December. What impact will that have on your own budget setting and when do you hope to be in a position to make available a final indicative budget for the coming year?

Iain Scott (Scottish Enterprise): The process is indeed a bit later this year. We are probably about one month behind our normal timetable. We would normally be having initial discussions with our board at its meeting in early December, but we will not be able to talk about any particular figures then, although we have already had a strategy session with the board, and we have discussed what our priorities will be. The board has given the executive team some things to think about and to bring back as soon as we can do that. We will probably be following up on that in early December, but it will be the tail-end of January before we take a first draft to the board, and it could be the board meeting at the end of February before we have a final draft. We should certainly be in a position to sign off on the budget by the end of March.

The Convener: I will ask you the same question that I asked the witnesses from Highlands and Islands Enterprise, who were here earlier, in relation to different workstreams. In the event of the budget changing—either increasing or, perhaps more likely, decreasing—are there particular areas of work that you are more or less likely to be able to flex?

Iain Scott: We operate very similarly to Highlands and Islands Enterprise. I estimate that, at this time of year, we would normally be about 60 per cent committed towards next year's budget. Obviously, a number of the things that we do go over the 12-month period. The flexibilities that we have are more on the direct investment side. We invest in the region of £60 million in companies every year. Purely because of the timing of that, those investments are not legally committed until the deal is done on them. However, that is very important expenditure, which goes a long way towards growing new high-quality, sustainable businesses. It is not an area in which we would want to reduce funding, but that is the area of flex that we have at the moment.

The key thing for us, perhaps more than for Highlands and Islands Enterprise, is that we have quite an asset base. We have talked about that

here before. It includes our property assets and our investment assets. Over the past 12 months, the investment assets have been freed up—we are getting more returns coming back. The job for us is to maximise the income from those assets, as opposed to reducing expenditure in the areas that are very important to us.

The Convener: How is that progressing? Your ambition was to realise £23 million-worth of asset disposals from property in the current financial year. Can you give us a flavour of where you are against that total?

Iain Scott: Our latest estimate specifically on property disposals is now down to £16.6 million. The main reason for that, though, is that we had thought that a deal that we are working on would happen towards the tail-end of this year, but it now looks as if that will move one or two months into 2016-17. That deal is for one piece of land and is worth in the region of £17 million. Although we have had to take it out of this year's forecast, we are pretty sure that that £17 million will be a start for next year's income forecast. It will go a long way to helping us with that.

We have managed to maintain a fairly healthy level this year because of a deal that we did not know about at the beginning of the year, involving a property in Edinburgh. It looks as if we will be able to sell it before the end of the year—probably in December—for £9.5 million to £10 million. That has come in to support the level of disposals, which is why the total has gone down only by £6 million or £7 million.

As I said, overall we have seen more exits coming through from the investment assets than we envisaged, so we have made up the shortfall in the business plan this year with further income from those exits. Overall, between the two, we originally forecast £29 million of income, but our latest forecast is for £30.5 million, and we are on track for that.

The Convener: Have you found that the property market has improved in the past six months or year compared with previous years?

Iain Scott: Yes, I think so. The property in Edinburgh that I referred to is owned jointly with the City of Edinburgh Council, and the return that we are getting on it is certainly more than we envisaged at the beginning of the year and certainly more than we are holding it on the books at, so that is good.

Dennis Robertson: Good morning. In our earlier evidence session, we asked Highlands and Islands Enterprise about its work in the renewables sector. I note from your evidence that renewables is not in your strategic plan. Why is that?

Adrian Gillespie (Scottish Enterprise): Good morning, everyone. Thank you for the opportunity to present evidence today.

The renewables market has changed a lot over the past couple of years and has been particularly influenced by policy at UK level. Some areas that we thought were large opportunities, such as offshore wind manufacturing, are not the opportunities we thought they were. We are still pursuing specific investments in those areas, but renewables have reached the stage at which there are a number of identifiable opportunities that we will pursue through our existing funding arrangements and existing inward investment arrangements.

As we know, the wave market has been particularly difficult. The companies in that sector have struggled to attract private sector investment. However, through our investment funds, particularly the renewable energy investment fund, we are still pursuing some very exciting, transformative investments, such as the MeyGen tidal flow project and the 2-B energy twin-blade offshore wind turbine. Therefore, we still have investments but are pursuing them against a difficult market background.

Dennis Robertson: Is it the uncertainty in the market that is making you hesitant about committing more of your budget or attracting investors?

Adrian Gillespie: It is not so much that we are hesitant; it is that the appetite for private sector investment in particular sectors is not as strong as it was. Clearly, that has a knock-on effect for us and is a big influence on our investment, because we invest alongside businesses or contribute to speed up individual business investment.

Dennis Robertson: How damaging is that for you in meeting, say, your targets for reducing carbon emissions?

Adrian Gillespie: I guess that it is separate, really. The driver for the investments that we pursue would, in the main, be around employment. The reason for investing in offshore wind manufacturing, for example, was around employment and a market opportunity. There are still other ways of realising our carbon reduction targets in terms of the companies that we support or, indeed, our own emissions targets.

Obviously, there have been changes in onshore renewables that have had more of an effect on the profile of energy that is generated in Scotland. However, there is not a large amount of manufacturing investment in that sector in Scotland. I would therefore say that the issues of investment and reducing carbon emissions are separate but connected.

Dennis Robertson: You mention the UK context. Were you surprised at the recent announcement that Amber Rudd is considering supporting renewables outside the UK when the Government is withdrawing support for renewables within the UK?

Adrian Gillespie: Those are policy issues that do not particularly affect our direct—

Dennis Robertson: But it does affect investment, does it not? It is a policy issue, but it affects how you would look at attracting investors and investing in an industry of the future.

Adrian Gillespie: The renewables market and the energy market are very much affected by the policy of providing or reducing support within those markets. There is obviously a connection between policy and the stimulation of activity. The most impactful development of the past couple of years has been in the offshore renewables market, where there is not the opportunity that we thought there would be in 2009, for example.

Dennis Robertson: How much of your budget is committed in the renewables sector?

Iain Scott: In the budget analysis that we put in the business plan, you will see that there are two specific lines but that renewables and energy get spread throughout a number of lines. On the innovation side, we have £9.2 million for renewable energy research and development support. On the investment side, we have £18.9 million for the renewable energy investment fund. That means that we have committed about £28 million in total specifically, never mind the individual company work that we do. Our REIF team has a list of work in progress that contains deals totalling over £100 million, and we would ordinarily put in about £30 million of that. There is still a healthy pipeline of renewables investments.

Lewis Macdonald: Four years ago, the Scottish Government set the target that 100 per cent of Scottish electricity demand would be met from renewable sources by 2020. You may have seen a report that was published this morning by Scottish Renewables, which says that, in fact, it is likely that production of renewable energy will fall well short of that target, at less than 90 per cent. Do you agree with that analysis? Let me put that in a slightly different way. Does that concur with your experience of the shrinking of the market that you have just described?

Adrian Gillespie: We have not had the opportunity to review the report, but I have seen the news reports of Niall Stuart's statements this morning. A large element of offshore wind was forecast to be part of the energy mix when the 2020 target was set, but that market has been much smaller and has moved more slowly than was anticipated at that time. There have also been

changes in the policy support for onshore wind. There would have to be some major reconfiguring of the 2020 expectations, as I imagine that it would be a very stretching target at the moment. I would say that that is a result mainly of the offshore wind capacity not being what was anticipated at the time.

Lewis Macdonald: In that case, I guess that you will be looking for opportunities to reverse the contraction in that sector.

Adrian Gillespie: There is a long-term market for offshore wind, and we still want to pursue that market very aggressively. We had lined up a number of inward investments in offshore wind before the policy changes took effect and we maintain those relationships, but it is very much a long-term opportunity now compared with what we thought it would be a few years ago.

Lewis Macdonald: In the wider picture of energy in the Scottish economy, the biggest difficulty over the past 12 months has been the downturn in the price of oil and gas. Have you made an assessment of the impact of that downturn on economic activity in the Scottish Enterprise area?

Adrian Gillespie: Our focus has been on supporting those who have been affected by the change in the oil price through the task force that Lena Wilson has chaired and on engaging the industry in that support. We have also focused on ensuring that confidence is maintained in areas where there is still opportunity and, in looking to the medium and longer terms, on what must change in the industry in order to make the north-east and the continental shelf activities more competitive within a global market. That has very much been our focus.

11:30

We have engaged intensively not just with our account managed companies but with companies across the supply chain as well as the newly established Oil and Gas Authority and Oil & Gas UK. There is a strong partnership between industry, the regulator and us in understanding the short-term challenges and supporting companies through those, and in looking at opportunities for innovation and how we can get the operators to adopt more of the innovation and ideas that are coming from the supply chain. We feel that considerable cost savings could be made by having more of a culture of engagement between the operators and the supply chain on transformative innovation that will reduce cost and increase production recovery rates to extend the life of the assets that we have and, indeed, to encourage more assets to be brought forward.

We are still making short-term tactical arrangements for support, but we are also looking to see how the focus on cost can be used in a positive way to come out of the other side much leaner and fitter.

Lewis Macdonald: When I asked the representatives of Highlands and Islands Enterprise a similar question, they indicated that that agency is undertaking an economic impact assessment of the impact of the oil and gas downturn on the Shetland economy. Clearly, you will be aware that the impact in the Scottish Enterprise area extends far beyond the north-east and into the supply chain across the central belt. Do you have a view on prospects there? The case of Burntisland Fabrications has been mentioned to me—it is a fabricator that works in oil and gas and in renewables, particularly offshore renewables, which you have highlighted. Are there prospects for more to be done to enable people with skills and equipment relating to oil and gas to diversify into renewables and other sectors? You have talked about a short-term tactical response, but do you look at the issue in a more strategic way?

Adrian Gillespie: There were a couple of questions there.

We are working with a number of companies on diversification. Although I just commented on renewables, that work is not limited to renewables—we are looking at much wider engineering opportunities in our work on diversification.

I think that your second question was on the longer-term impact of what is happening.

Lewis Macdonald: If the oil and gas downturn and the downturn in offshore wind had happened at different times, more positive things could be said about diversification from one to the other or back again. In strategic terms, looking into the 2020s and beyond the immediate budget, how do you perceive the prospects for those parts of the supply chain that have links to either or both of those sectors?

Adrian Gillespie: That will be heavily influenced by the recovery in the oil price. The short-term challenge is the same as the medium-term challenge, which is to make the UK continental shelf cost base more competitive with other investment opportunities around the world. It is perceived as a high cost base at the moment. It is a big opportunity to use the innovation and expertise that we have in the sector to make a difference. That will also establish longer-term international opportunities. The learning that we take from being more innovative—for example, in recovering more from ageing assets—will be in demand around the world. We still see an important and exciting opportunity for oil and gas

for many years to come, particularly where we have a specific competitive advantage, such as on ageing assets and structural integrity.

The industry and the support agencies now have a shared view on where the areas of competitive advantage are. Another one is the subsea sector. We are focusing our efforts on those areas.

Lewis Macdonald: Highlands and Islands Enterprise told us that it has 80 account managed companies that are reliant on the oil and gas sector to some degree and with which it is working. Do you have an equivalent total? If you can give us some idea of what that looks like, it would be helpful.

Adrian Gillespie: We account manage 350 companies in the oil and gas sector. However, our support goes way beyond the account managed companies. Particularly in light of recent developments, we work closely with the business gateway and other supply-chain partners. That 350 is a significant part of our company base of 2,300.

The sector also strongly influences our international turnover growth targets. Some of our monitoring of turnover growth for this year is already being affected by what is happening in oil and gas. We are very focused on that. Although I have mentioned the opportunity for some time to come, there is concern, which influences the amount of resource and time that we give to the sector at all levels within Scottish Enterprise.

The Convener: I have a couple of follow-up questions on energy. You talked about wider opportunities and diversification in engineering. At the time of the Chinese premier's visit a couple of weeks ago, I saw some press commentary about opportunities for Scottish engineering companies from the investment in the new nuclear plant at Hinkley Point. Are you actively involved in supporting Scottish businesses to win contracts for that?

Adrian Gillespie: Yes. We have been involved in the nuclear supply chain through our energy team for some time now. That work mainly concerns the decommissioning opportunities, but the certification and expertise that are connected with decommissioning can often be applied to global opportunities in new nuclear, so we assist our companies in understanding where the opportunity may lie for them.

The Convener: Can you put a figure on that at the moment, or is it too early to say?

Adrian Gillespie: It is too early to say at the moment. We have very good relationships with the companies that have been involved in decommissioning through the support that we

have given them, so our routes to them are straightforward. However, I do not have a figure on the size of the opportunity.

The Convener: You talked about the future of the oil and gas sector. Is it helpful to have people campaigning to disinvest pension funds from oil and gas? We get letters about that all the time, as you can imagine. What message does it send to people whose jobs depend on that sector and young people who look to have careers in it? Is that sort of thing helpful?

Adrian Gillespie: The question is perhaps more what can be done to help to stimulate the industry, provide confidence in it and provide the right messages to young people about the opportunity that exists and will exist for some time to come. I know where that question is going, but we would not take a direct view on the matter. Our priority is supporting the companies to access the UK and international markets.

The Convener: Scottish Enterprise clearly wants to invest in oil and gas, not see disinvestment.

Adrian Gillespie: We want to see investment in the oil and gas sector. It is an important part of our economy.

The Convener: Thank you. I am sure that Patrick Harvie has a question on that point.

Patrick Harvie: Mark Carney recently warned about the potential impact on the economy if our pensions are heavily exposed to an overvalued industry. That is the basic argument about divestment, but it is probably a much longer debate for another time.

One of the commitments on energy that the Scottish Government has given relates to energy efficiency, which was to become a national infrastructure priority. A number of people have tried to put a figure on the number of jobs that are involved in the 10-year programme that is likely to develop out of that. We are told that it will aim to impact on every building in Scotland. A range of projections have been made about the amount of work and the number of jobs involved. They are all substantial and I suspect that none of them has quite pinned it down yet. Has Scottish Enterprise been involved in any discussions with the Scottish Government about the opportunities for businesses in that area to ensure that they have the skills that they need to do the work that will come about and whether that work will be funded through the coming budget or in the longer term?

Adrian Gillespie: I have not been involved in any direct conversations about that, but Scottish Enterprise is very much involved in helping companies in the low-carbon sector by stimulating

innovation, particularly with regard to opportunities for energy efficiency.

There are two areas to consider: first, the development of energy efficiency technologies and secondly, installation, refitting and so on. We work with growing companies, but a number of companies that are involved in installation and fitting, which I guess would be more locally based, are supported by the business gateway. I know that work has been done to understand the level of capability in that respect and what more needs to be done to equip companies with the skills that they need.

Patrick Harvie: So Scottish Enterprise is not at the point of discussing with the Government what this national infrastructure priority will mean in practice for the businesses in that sector.

Adrian Gillespie: A lot of the support that we give will be relevant to companies in any sector, but opportunities with regard to installation, for example, would be more for Skills Development Scotland. We would work to support that kind of company through the business gateway. We recognise that this is an important priority and that there are business opportunities there, but Scottish Enterprise's support is more for companies with a wider and international market opportunity with regard to technologies, for example.

Patrick Harvie: Thank you.

Richard Lyle: My questions are mainly about jobs. You say in your submission:

"Our target is to have 5,000 more innovation active companies and £650m of additional company innovation spend over the next 5 years."

How do you propose to do that?

Adrian Gillespie: Innovation is a key part of our business plan and, for some time now, Scotland has not measured among the best with regard to our global competitors. In recent years, we have focused a lot on innovation and have put in place a number of new initiatives to drive demand for innovation instead of doing what I suppose we have done in the past, which was to support innovation and R and D projects in order to speed them up or make them bigger. The challenge that we face in Scotland is to increase the demand for innovation, so we are working through, for example, supply chains and our seek and solve initiative, which works with those at the top of the supply chain to understand their business challenges—and innovation opportunities on the back of that—and then works with their current and potential supply chain to drive innovation through the supply chain system.

We are also very active in the area of open innovation, which I guess is all about teaching a

company how to take innovation outside itself and work more with its supply chain and wider business contacts to make it and its products more innovative. We have found a strong appetite and demand for that sort of thing, but the company base here is not so great that it allows companies go outwith themselves and stimulate innovation more broadly than just through their own organisational structures. That said, I have been very encouraged by the response to our calls for companies to get involved in the programme, and I am sure that our submission makes it clear that we have quite high expectations about the number of calls for innovation that will come from that, that would not otherwise have been made.

Our role, therefore, is to stimulate innovation and work with companies to ensure that they have the capacity to innovate. Our business improvement tool called improve, which is a European Union-adopted diagnostic, is less about innovation projects and more about a company's readiness to innovate, its structure, the engagement of its workforce, how much it is dealing with its customers and its engagement with markets. I guess that it helps companies to prepare to be much more innovative and take advantage of some of the projects that are coming up.

Iain Scott: The best example of that work over the past few years is Alexander Dennis, which makes buses and whose Enviro400 bus model is a prime example. It helped us to achieve some of our 2014-15 outputs and targets. Because of its innovative work, it has captured about 50 per cent of the UK bus market, never mind the multibillion-pound deal that the Chinese authorities awarded it when they were over here recently. That is a great example of how the work that we have done with the company has helped it to achieve that.

11:45

Richard Lyle: The company is in my region, so I compliment it on that. I will move on to jobs. Scottish Enterprise is an organisation that basically must drive and improve Scotland's economy and all the other things that we want to do, so let us get out there and get it done. What work are you doing with councils, universities and colleges? The population is getting older, people are retiring and there are skills shortages all over the place, yet we need so many engineers, for example. What are you doing to ensure that Scotland does not have a skills shortage in the next couple of years in those areas in which people say that we will have them?

Adrian Gillespie: In the main, we do that through each of the sectors in which we operate. For example, as we mentioned, the energy sector is affected by exactly that issue. We have been

working with Skills Development Scotland on putting together a skills investment plan and the actions that will come from it. Our main role is to help companies to deliver on their skills requirements through support for training—we are deploying training plus much more than we have done in the past—and modern apprenticeship programmes.

Our approach is to put together an account team around the company. For example, GlaxoSmithKline has operations in Irvine and Montrose. The account team includes Scottish Enterprise and Skills Development Scotland, and it has worked with GlaxoSmithKline on some of its skills requirements and how it can work with other companies in the sector to develop their skills initiatives. It is about working as a team—team Scotland.

You mentioned local authorities. They are very much part of our account team plans. During the past few years, we have focused much more on regional engagement. We have location directors that work with each of the local authorities to understand some of their challenges.

To return to innovation, I did not mention that the public sector can very much play a part in stimulating innovation. Local authorities and the national health service, for example, are involved in the open innovation programme.

We are taking a whole range of action, but it is key that we understand each company's requirements and where a sectoral rather than an individual company approach could be more beneficial. We then work with Skills Development Scotland and other partner agencies to deliver on the requirements.

Iain Scott: I will just add a wee bit of context to that. As well as the public sector agencies that Adrian Gillespie has just mentioned, one of our current themes is working with companies to invest in youth. Every single one of the 44 companies that has accepted a regional selective assistance application since 1 April this year has committed to putting together a plan to invest in youth and we will work with them to ensure that they do that. We want to see more investment in young people coming through with the support of the agencies.

Adrian Gillespie: The business pledge has been helpful in stimulating some of the discussions with companies. For example, we had a conversation with Smillie & Cuthbertson in Kilmarnock, which was a recipient of RSA, about having an investing in youth policy. It has such a policy, and it got them into other areas of interest, such as Investors in People Scotland. That opened up a whole conversation around how a more engaged and highly developed and trained

workforce and different workplace practices can contribute to the growth of the business.

Richard Lyle: This is my final comment, convener. How do we ensure that we do not have a skills shortage in the next 10 years in all the fields that people are concerned about?

Adrian Gillespie: The situation is very fluid. We will do everything that we can to minimise skills shortages. Industry is very engaged with the issue. Within some of the industry advisory groups, specific skills sub-groups are putting a lot of focus on the area.

We are investing more than we did in the past in areas such as training plus, so we have a strong commitment to minimise skills shortages. There will always be skills shortages because industry is so dynamic. Not that long ago, we were discussing skills shortages in oil and gas and their impact on other engineering sectors. We have to be quite nimble when we are dealing with global market changes.

Gordon MacDonald: I will move on to exports. You rightly said that one of the drivers for growth in the Scottish economy is internationalisation. The committee's inquiry on internationalising Scottish business called for more co-ordination between SDI, chambers of commerce and local authorities, particularly in relation to trade missions. What steps are being taken to address joint working?

Adrian Gillespie: Some immediate steps have been taken. For example, the community of practice that we referred to in our submission is bringing together local authorities, the Scottish Government, Scottish Development International and chambers of commerce. We will strive for a much more co-ordinated approach.

We recognise that internationalisation is a strategic priority but it is also a big challenge as regards moving from where we are now to where our ambitions lie. That will take involvement from all our partners.

We see it as a wider team Scotland approach. There have already been meetings with UK Trade & Investment and a better working relationship has been established there for co-ordinating our activities. I am positive about the progress that we have made so far, but there is more to be done—indeed, there will be more to be done for some time now—in getting to where we want to be around our export and internationalisation targets.

Gordon MacDonald: So, we are starting to get a more co-ordinated organisation for trade missions so as to try and grow the economy. In your written submission, you stated:

“the key to future growth lies in increasing the international competitiveness of Scotland's companies and sectors.”

Companies can only do so much. You have spoken about the innovation of Alexander Dennis and about investment, and there is obviously also the question of increased productivity, but I want to ask about what is outwith the control of companies. What effect is the strength of sterling having on the competitiveness of Scottish exports? What, if anything, can be done to address that?

Adrian Gillespie: I mentioned the need to be nimble regarding some of the global economic shifts. You have highlighted one of them—the impact that sterling can have on exports. It impacts on our competitiveness in euro markets. That is still a hugely important export market, and we have a huge amount of focus on it, but we are also looking to other markets. Although growth in China is not what we thought it was going to be, the market there is still growing very rapidly. The Indian economy is growing beyond expectations. The US economy is getting back to very encouraging growth, and, again, that is an important export market for Scotland.

We have that outlook in the advice that we give regarding economies in which opportunities are increasing, and we are also looking at specific sectors. In the food and drink sector, for example, the premium food opportunity has been very successful, particularly in some of the Asian markets. There are still opportunities in oil and gas. More opportunities are opening up in the middle east, in Saudi Arabia, for example.

We just have to be nimble and give relevant advice to companies about where opportunities lie. The situation will always be dynamic.

Gordon MacDonald: You have highlighted that, in growing the economy through exports, it is important to have good connectivity. That suggests direct flights. How important are direct flights? If air passenger duty is devolved to the Scottish Parliament in a couple of years, how important will a gradual reduction in APD be in growing direct flights, sustaining jobs here and increasing exports?

Adrian Gillespie: Direct flights are hugely important and we have had quite a bit of success with them in recent years. A lot of new routes have opened up to Canada, for example, and we also have a lot more direct routes into Asia, although there is more to be done, particularly on direct flights to China, India and South Africa.

We are clear about where we target our resources. We work as team Scotland with Transport Scotland and VisitScotland on this and we are having some successes. Anything that can

be done to make Scottish airports more competitive will help to stimulate new routes, so we see that as an opportunity to get more direct flights from some of the key emerging markets.

Gordon MacDonald: Thank you very much.

Lewis Macdonald: That leads neatly to questions about choices and priorities for enterprise agencies as well as for Government. You have endorsed the principle of inclusive growth as an additional strand of your strategy priorities and budget. It could be suggested that a 10 per cent budget allocation is modest, but I want to start by asking you what you understand by “inclusive growth” and what Scottish Enterprise is doing or is hoping to do in the future to work towards that objective.

Adrian Gillespie: Our focus is on the growth element of inclusive growth. That is what Scottish Enterprise does—it stimulates growth, including in the key companies and sectors that we work with. The inclusive element of that presents a big opportunity, because what we are striving for through more internationalisation and innovation is for the economy to be more productive. The more inclusive we can make our assets, whether they be people or infrastructure, and the more engaged we can make the system of people skills, the more competitive and productive the economy will be. It stands to reason—and there is evidence to show this—that more inclusive economies grow faster.

We are developing the evidence base; for example, we are involved in business innovation and innovative workplace initiatives. The University of Strathclyde has a fair, innovative, transformative work—or FITwork—project, and we are working with it to establish the evidence base of good practice. It is an emerging area of work for us.

As for the 10 per cent allocation that you mentioned, I think that it demonstrates that we have been active in this area; we recognised the importance of good leadership and regional selection, for example, through regional selective assistance. Comparing it with our spend in other important areas such as innovation and internationalisation, I think that we are off to a good start in that respect. It involves a combination of building on our past work on regional selective assistance and other factors; for example, I have mentioned more deployment of training plus, particularly in light of some of the regional aid changes that were made at European Union level last year, which have encouraged us to use training as more of a tool to attract investment.

Iain Scott mentioned our work on RSA and investment in youth. We are quite encouraged by some of the signs that we have seen over the past

few years of involvement of women and minorities in new engagements with Scottish Enterprise and business gateway. For example, about 47 per cent of our new business engagements are being made by women, which is almost double what we have seen in the past. This is very much about making sure that all Scotland’s assets work together to give us the most productive, engaged economy that we can possibly have, because that will make us more competitive internationally.

Lewis Macdonald: To be fair, I know that you have a different remit from Highlands and Islands Enterprise, which I am sure you will comment on. However, when I asked Alex Paterson from HIE about inclusive growth, he talked about geographic, social and digital inclusion. Leadership development, entrepreneur support and encouraging inward investment are all good things, but I am not sure that they are particularly inclusive—certainly not in a social sense. Does the fact that your remit does not include a specifically social remit mean that when you talk about inclusive growth, you are simply talking about growth and trying to be inclusive in promoting it?

Iain Scott: Our remit is not focusing us away from inclusive growth. Many areas of our activity go across the whole of Scotland, but one particular area is our investment function through the Scottish Investment Bank. Earlier, we mentioned the renewable energy investment fund, which has invested £2.25 million in a community wind farm in Stornoway. That is going towards a £14 million project for a 9MW wind farm. We have examples of our investment in inclusive development. It is perhaps because our wider focus is more on the growth side of things that that comes through more strongly, but we are also involved in social developments.

12:00

Adrian Gillespie: You mentioned regional engagement, and I want to make a couple of points about how we capture that spend. Inclusive growth is influenced not only by our budget line for it; it is hugely influenced by things such as innovation and internationalisation. There is a direct link in that respect. For example, the work that we do with many companies on issues such as leadership leads to inclusive growth. If we are to have engaged workforces and innovative workplaces, it is essential that we have organisations that are well led. I would therefore argue that there is a very strong link there.

Our substantial £33 million investment in the Dundee waterfront is based on the understanding that there is an opportunity to have a stronger economy there. We are talking about an economy that has had lower growth, lower employment rates and higher unemployment rates for many

years, and the waterfront investment is about transforming some of those key economic indicators. We are very much involved at a regional level.

We are also heavily involved in the city deals. I am involved in the Aberdeen city deal in terms of our sponsorship of that piece of work, and I am very engaged with the local authorities in pulling that together and actively contributing on the innovation and internationalisation themes. We are using our expertise to inform the bids for the city deal. A lot of work is going on in that area that would not necessarily be captured in budget lines.

Lewis Macdonald: I guess that part of my concern is that I am not sure whether the inclusive growth budget line is particularly helpful in illuminating the work that you are doing. I completely take your point that good economic development can have good social outcomes but, as an agency, you are not in a position to implement social policy. I guess that, because you now have a strategic purpose of achieving inclusive growth, I am looking at whether you are now going in any policy directions that you were not going in before inclusive growth was added to your list of strategic priorities.

Adrian Gillespie: I think that we can bring a couple of things to this area, including a strong knowledge of the growth opportunities that can help our partners with the social inclusion initiatives that they are working on. I am thinking in particular of our engagement with the community planning partnerships.

We are also involved in raising ambition. In Dumfries and Galloway and in Fife, we have discussed how we can accelerate ambition in order to make the changes that we would like to see in some of the economic indicators.

I think that we are a very important part of the effort around social inclusion. We bring a specific expertise to that work, and I would expect us to inform those policy decisions, if not lead on some of them.

Lewis Macdonald: Iain Scott said that, since the start of the financial year, 44 companies have accepted that they should have a youth policy in connection with receipt of regional selective assistance, but that is not a formal condition. Are other requirements put on recipients of funding that is provided through Scottish Enterprise? Are any of those conditions formal requirements that relate to social policy?

Adrian Gillespie: Our approach is to encourage and incentivise rather than regulate on such matters. I think that that figure of 44 demonstrates that our approach can be quite effective. The feedback from our RSA team is that there has been no resistance. In fact, the opposite has been

the case; companies have welcomed the opportunity to have conversations about such matters and have put in place practices that they would not otherwise have put in place. Our approach is to take companies along with us in having conversations about how engaged their workforce is and how that situation could be changed.

We would go further in our support if there were a youth employment dimension. For example, with regard to organisational development support for stevedoring at Forth Ports, we would, in encouraging the company to take on more youth, go slightly further in our contribution to some of those projects. It is about incentivising and encouraging, using the evidence base that we have and which we are continuing to build that shows why such an approach is more beneficial to the company and the economy.

The Convener: Patrick Harvie has a follow-up question.

Patrick Harvie: My question is on the inclusive growth agenda. I have to admit that I am struggling to see how it is a change in direction, as it does not seem to be any more meaningful a concept than sustainable growth. They both sound pretty much like vanilla gross domestic product growth to me.

Your answers on this theme have not mentioned the business pledge, but your written evidence says that, as part of your approach to the inclusive growth agenda, you are

"actively promoting the Scottish Business Pledge and around 30% of signatories to date are Account Managed companies."

Would you mind putting that statistic round the other way? What proportion of your account managed companies have taken up the business pledge?

Adrian Gillespie: It is a low proportion of our account managed companies.

Patrick Harvie: How many account managed companies are there?

Adrian Gillespie: We have 2,300.

Patrick Harvie: And a few dozen of them have signed the business pledge.

Adrian Gillespie: It is 39 or 40, but it is early days. I talked earlier about the usefulness of the business pledge in opening up discussions with companies about this whole area. Three hundred companies have formally signed up to the living wage, and we are already up to over 100 with the business pledge, after only a few months. I think that that is quite encouraging.

Patrick Harvie: I am not trying to be scathing but, after a few months, perhaps a little over 1 per cent of your account managed companies have signed the business pledge, which is the first step in a journey towards more ethical business practices. It is very much part of the agenda of raising ambition, which you have already mentioned.

You are about to be voted another year's funding through the Scottish budget, and you will have the opportunity to use the public money that is given to you to drive up the number of your account managed companies that commit to the business pledge. Where do you expect that figure to be by the end of the financial year to which the coming budget will relate?

Adrian Gillespie: I hope that we will continue to see the sort of progress that we have seen. We are having those conversations with companies. I do not want to put a figure on it, because instead of this being about setting a target and trying to tick boxes, it is about engaging and opening up conversations with companies about these important areas.

I hope to see continued progress. The conversations have begun with companies; we have discussed the business pledge with more than 1,000 of our account managed companies and another 20 of our account managed companies are in the pipeline of looking to be assessed for it. That is the pull-through that we are seeing.

A number of companies that are already involved in areas such as the living wage and other themes in the business pledge such as innovation and internationalisation are happy to participate in those without signing up to the business pledge. I guess that some companies will get engaged in that conversation but will not necessarily sign up, for their own reasons. I expect to see progress.

Patrick Harvie: You have begun that conversation with 1,000 of your account managed companies.

Adrian Gillespie: Yes.

Patrick Harvie: Is it reasonable to say that all of them will have been approached to take part in that conversation by the beginning of the financial year to which the coming budget relates?

Adrian Gillespie: Absolutely.

Patrick Harvie: Is it reasonable to expect that the public money that is being spent through Scottish Enterprise will be one of the incentives? If companies want to access support services—or, indeed, grants—through Scottish Enterprise, will that be made an incentive to ensure that people

take the business pledge seriously and sign up to it?

Adrian Gillespie: Yes. We are making moves in that direction. For example, we know that we get a better and higher return from companies with a mix of support that includes innovation, internationalisation and some element of organisational development. There is therefore a good argument to go further in our support to encourage more companies to undertake that kind of initiative, and we will continue to find ways of incentivising companies to get involved.

Patrick Harvie: So you will be putting in place incentives—and, I presume, disincentives—in relation to the business pledge.

Adrian Gillespie: There will be no disincentives. Our approach is always to encourage and to win the argument based on our evidence of the impact of signing up to the pledge on the other companies that we work with. Sometimes that is about money and sometimes it is about getting more attention from us through the resources that we put into our organisational development team. We are growing that team, and it is coming up with a lot of good new initiatives in that area. I expect us to do more in that area and to use the means at our disposal to encourage companies to engage in what the evidence points to as a more productive way of doing business.

Iain Scott: As an example, the OD team has worked with Genius Foods, which is in the gluten-free bakery market. It was a small company with 20 people, but after making a few acquisitions, it is now up to about 400 people. We want to work closely with that company on its growth ambitions. Through our work with it so far, we have helped to put in place training programmes and to encourage the company to increase its spend on training for employees from £82 to £300 a head. We have also got the company to look at its overall pay and benefits package for individuals, which has been significantly increased.

However, the company is still seeking to meet the objective of paying the living wage. If there was conditionality in the pledge, we would not be able to work with the company, because it was not paying the living wage. We still have to do a lot of work to get companies to put in place better progressive employment practices, but we can do that by encouraging them rather than by making our input conditional. Conditionality is not our policy at this time.

Patrick Harvie: I think that we will all accept that the approach is about moving people along on a journey, but that movement still has to happen. Some of the questions about conditionality can perhaps be followed up with the cabinet secretary at the end of our pre-budget scrutiny.

The Convener: I have a brief question on your last point, Mr Gillespie. In its recent inquiry, the committee spent quite a lot of time looking at the question of conditionality. Unless I misheard you, you said with regard to incentives and the business pledge that some of it will be about more money. Are you saying that Scottish Enterprise would offer to help businesses that signed the business pledge but would not offer to help businesses that did not?

Adrian Gillespie: No. I am saying that, where companies get involved in some of the areas that the business pledge points to such as innovation and internationalisation, where we know that there is an impact, we will go further to encourage companies not to sign the pledge specifically but to get involved in some of those activities. However, the pledge is a very good way of introducing those conversations to companies and getting those aspects on the agenda.

I was talking not about incentivising companies to sign the pledge, but about an undertaking. The pledge is based on the evidence that we have about what works to make the economy better.

The Convener: Thank you for clarifying that.

Joan McAlpine: I am glad that Mr Gillespie has mentioned Dumfries and Galloway, because I am about to mention it again, as I have done in past committee meetings and in private discussions with both of the witnesses.

My question is about section 2.1 of your written evidence, which relates to supporting Scotland's companies. I have raised the subject of Dumfries and Galloway before and the fact that it does not have a huge number of companies that are the same size as the companies that you are used to account managing. It is not a city region; indeed, it is more like areas of the Highlands and Islands in the support that it needs. How have you changed your practice in the region to improve things? You mention in your written evidence taking "a differentiated approach". Can you talk a wee bit more about that and how you are measuring it?

Adrian Gillespie: Yes—and in a minute, I will bring in Iain Scott, who has specific responsibility for the south of Scotland.

We have had conversations about working more closely with business gateway and understanding what will work in increasing ambition levels and pulling more companies into the account management system. Our employees have been very much involved in coming up with new ideas about what will work for the economy, and there are specific workshops for developing new project ideas—for example, in the dairy space—and how we can help in that respect to stimulate the economy. We have some specific ideas about the regeneration of Annan, including the

decommissioning of the power station and the other uses to which we might be able to put it. In fact, there has been quite a lot of focus on that matter.

Business space has also been mentioned, and a big part of our work in Dumfries and Galloway has involved the provision of business space to allow companies to grow and to pull more companies into that growth system. A lot has been going on, but at this point, I will bring in Iain Scott.

12:15

Iain Scott: Adrian Gillespie has covered most of the things that I would have said about Dumfries and Galloway. As Joan McAlpine might know, I was recently down at the Dumfries and Galloway business week, and it was great to meet a number of the companies that were there on several occasions. One account managed company was fantastic in demonstrating the growth that it has had down there. We need to try to get more companies that level of support; at present, there are about 20 companies in what we call the growth pipeline, and we need to progress them through to account management.

In the past, Adrian Gillespie has given a commitment to Dumfries and Galloway Council that we will look at moving companies into our account managed programme even if they did not meet the hard criteria that we have set. That is what we certainly need to do, and we have made some movement on that, having looked at two or three companies down there over the past six months.

Joan McAlpine: So you would consider doing that and being more flexible, even if those companies did not meet the criteria.

Iain Scott: Absolutely. We recognise some of the issues down there and we will act flexibly in that respect. We will not set other criteria, but we will act flexibly for quality businesses that are in the growth pipeline to get them through into account management.

Joan McAlpine: You say that you are working more positively with business gateway. What does that mean in practice, and how does it change things?

Iain Scott: I certainly saw a lot of evidence of really close working in Dumfries and Galloway. There was a presentation night that a lot of companies attended, and a number of agency representatives stood up and spoke with one voice about how they work together down there. That presentation night also included two or three areas of my own organisation, which said to all the companies there, "If you need support, contact the business gateway, because it is the front line for

us. We work very closely with it, and we will be able to deliver the services to you, but the business gateway is at the front of the process.”

The council has recently taken the business gateway down there into ownership. We certainly have a very good relationship with Dumfries and Galloway Council; that relationship has progressed over the past 12 months or so, and we will work closely with the council to help companies.

Joan McAlpine: That is good.

In the previous evidence session with Highlands and Islands Enterprise, I asked about the issue of mobile connectivity. There has been a big emphasis on broadband, and I think that it is fair to say that we are making headway in that respect both in the Highlands and in the south of Scotland. However, as HIE made clear, access to mobile coverage is the most important issue for people in the Highlands and in my region. Have you had the kind of conversations with mobile operators that the chap from HIE mentioned in his evidence?

Iain Scott: We have not had those conversations yet. With regard to the south of Scotland, I sit on the south of Scotland alliance alongside Dumfries and Galloway Council and Scottish Borders Council and at its most recent meeting, there were a number of discussions about broadband and mobile connectivity. We are going to work together as a group to try to progress those issues. That will come through the south of Scotland alliance working with the councils to make representations to whoever can do something about that issue down there. Although there has been some progress on broadband in Dumfries and Galloway, quite a lot of coverage still needs to be put in place, and we will work hard on that.

Adrian Gillespie: HIE has been leading on broadband implementation, and we might be able to learn some lessons from its in-house approach and expertise and apply them to some of the locations that you have mentioned—and some other locations that we know about—that could benefit from input in that regard. We will take that matter up.

Joan McAlpine: That is good. Interestingly, the chief executive of HIE said that it was a piece of work that he personally was taking forward, having been asked to do so by Mr Swinney. It might be helpful if something similar could be done in our area.

Iain Scott: We will certainly ensure that he has access to the south of Scotland and the rest of Scotland to continue that work.

The Convener: I think that that is called passing the buck.

Adrian Gillespie: It is called teamwork.

Richard Lyle: As a politician, I come across people who want to do things in Scotland. Two things jump out at me, and I want to ask you whether there are any others. The first issue is planning, and people talk about putting in an application and its not being agreed, the time that it takes to get planning permission, section 75 orders and so on. The other issue is funding, and trying to get investment locally. I note, for instance, that the Green Investment Bank has spent only 4 per cent of its funding in Scotland. Will you comment on those two aspects? Have you come across any other aspects that you think we should be looking at to improve economic activity in Scotland?

Adrian Gillespie: We work with individual companies that have planning concerns, and we use our relationships with local authorities, for example, to assist with that.

Another area that springs to mind as something that sometimes gets in the way of or slows down investment is utilities, which can be a frustration for companies with regard to implementation time or inhibiting growth. Again, we tend to take up such issues individually with the relevant company or local authority; in fact, we often do so, but that happens below the radar. We try to sort things out and remove any barriers.

I am sorry, but did you have another question about the Green Investment Bank?

Richard Lyle: Yes—sorry. You have the Scottish Investment Bank, which is continuing to address supply and demand issues to do with companies seeking finance. Are banks now starting to lend? Are you involved with companies that say that their branch manager now wants to give them money whereas, years ago, the answer was no?

Iain Scott: I have been working alongside the Government team on the Scottish business development bank, which has involved speaking to a number of banks. It is clear that banks are lending, but they still find it difficult to lend in some areas, and we are working with the banks on products, whether that be co-investment or some form of guarantee, to allow that to happen. That work is happening, and I hope that, over the next few months, we will be able to announce something.

Our biggest area of investment is through our access to finance team. As well as giving out money alongside other co-investors, the SIB has a team that is dedicated to working with companies on helping them to put together proposals in a way that gives them a better chance of accessing finance. Over the past couple of years, we have been very successful in that, to the point at which I

think we have doubled the resources that we put into it, and we are going to expand that even further as a result of the work on the Scottish business development bank.

We are looking at making it easier for companies to be able to find out about and access products, and there will be some kind of digital solution that will make things easier by pulling some of the products together. We have made progress, but there is still some way to go on that.

The Convener: Lewis Macdonald has a follow-up question.

Lewis Macdonald: It actually goes back to the wider question on the economic impact of the oil and gas downturn.

Earlier, Mr Gillespie talked about the importance of a short-term tactical response. Figures released today show that, in the past 12 months, the claimant count in Aberdeen rose by 39 per cent and in Aberdeenshire by 66 per cent. Those figures are significant, as I am sure you will agree. Is it time to assess the impact of the downturn on the north-east regional economy and the Scottish economy? Can Scottish Enterprise take a lead on that in the way that Highlands and Islands Enterprise is doing in Shetland?

Adrian Gillespie: I would argue that we are very much taking a lead in the response. We will consider whether there is a piece of work to be done on that. We appreciate the scale of what is happening and I think that we are doing all the right things, but I am not sure that, at the moment, providing numbers would be particularly helpful. We are focused on the task at hand and on what needs to be done for the future. We have the oil and gas strategy, which is being refreshed in recognition of the changes that have taken place. A huge amount of effort is going on. We will consider whether it is worth partnering with HIE to look at the impact more widely, and we will follow that up with the member.

The Convener: On behalf of the committee, I thank the witnesses for coming along to the committee. The session has been very helpful to us in our deliberations.

12:24

Meeting continued in private until 12:28.

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