



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Economy, Jobs and Fair Work Committee

**Tuesday 25 October 2016**

**Session 5**



The Scottish Parliament  
Pàrlamaid na h-Alba



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**Tuesday 25 October 2016**

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**ECONOMY, JOBS AND FAIR WORK COMMITTEE**  
**8<sup>th</sup> Meeting 2016, Session 5**

**CONVENER**

\*Gordon Lindhurst (Lothian) (Con)

**DEPUTY CONVENER**

\*John Mason (Glasgow Shettleston) (SNP)

**COMMITTEE MEMBERS**

\*Jackie Baillie (Dumbarton) (Lab)

\*Ash Denham (Edinburgh Eastern) (SNP)

\*Liam Kerr (North East Scotland) (Con)

\*Richard Leonard (Central Scotland) (Lab)

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

\*Gordon MacDonald (Edinburgh Pentlands) (SNP)

\*Gillian Martin (Aberdeenshire East) (SNP)

\*Gil Paterson (Clydebank and Milngavie) (SNP)

\*Andy Wightman (Lothian) (Green)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Antony Clark (Audit Scotland)

Gemma Diamond (Audit Scotland)

Fraser McKinlay (Audit Scotland)

**CLERK TO THE COMMITTEE**

Alison Walker

**LOCATION**

The David Livingstone Room (CR6)



## Scottish Parliament

### Economy, Jobs and Fair Work Committee

*Tuesday 25 October 2016*

*[The Convener opened the meeting at 09:32]*

### Decision on Taking Business in Private

**The Convener (Gordon Lindhurst):** Good morning, everyone, and welcome to the eighth meeting of the Economy, Jobs and Fair Work Committee.

Item 1 on the agenda is a decision on taking business in private. Is the committee happy to take agenda items 4, 5 and 6 in private?

**Members indicated agreement.**

### Economic Impact of Leaving the European Union (Witness Expenses)

09:32

**The Convener:** Agenda item 2 relates to witness expenses for our inquiry into the economic impact of leaving the European Union. Is the committee happy to delegate responsibility for those expenses to me as convener under the usual terms?

**Members indicated agreement.**

## “Supporting Scotland’s economic growth”

09:33

**The Convener:** Agenda item 3 is evidence on Audit Scotland’s report, “Supporting Scotland’s economic growth: The role of the Scottish Government and its economic development agencies”. We have three guests from Audit Scotland: Fraser McKinlay, Antony Clark and Gemma Davidson.

**Alison Walker (Clerk):** It is Gemma Diamond.

**The Convener:** I beg your pardon: I have been to the optician, but have not managed to get my new glasses yet.

I invite whichever of the witnesses is tasked with making the opening five-minute statement to do so.

**Fraser McKinlay (Audit Scotland):** I will kick off with a short opening statement.

Thank you very much for giving us the opportunity to brief you on the Auditor General for Scotland’s report, “Supporting Scotland’s economic growth”, which we published back in July. As you know, the report focuses on the roles of Scottish Enterprise and Highlands and Islands Enterprise, but it takes as its starting point the Scottish Government’s economic strategy, as that determines the strategies and plans for the enterprise bodies.

It is important to say that we recognise that supporting economic growth is not a straightforward or easy task. It is complex, and many factors are involved that are outwith the direct control and responsibility of any Government, never mind just the Scottish Government. We understand that the task is not easy, but we also understand its importance.

The economic strategy that the Government has set out is a high-level document that gives the broad approach to helping to achieve the overall purpose of sustainable economic growth. However, in the report we found that the Government does not set out in the strategy—or, indeed, elsewhere—how the various economic policies and initiatives will be implemented. It is important that the Government is clear about how it is to achieve its ambition on sustainable economic growth. In that sense, we think that the how is as important as the what.

The context for supporting economic growth is continuously changing, and public sector economic strategies and interventions have to respond to and be appropriate for the economic climate. As you will know better than I, we have

been through quite a period of late, and there is more to come following the new financial powers for the Scottish Parliament and, of course, the result of the European Union referendum back in June. All those issues—and others—will clearly influence how the Scottish Government and Scotland support economic growth.

Taking all that into account, the report recommends that the Scottish Government strengthens its approach to developing, delivering and monitoring its economic strategy. That includes developing clear timescales and actions and setting out specific responsibilities for the public sector bodies involved.

On the whole, we found that Scottish Enterprise and Highlands and Islands Enterprise are performing well. Their business plans and activities are based on a wide range of evidence, and each has a good understanding of how to respond to opportunities and challenges in their respective areas.

As ever, as auditors, we also found areas for improvement. For example, both bodies offer some similar support, which is tailored to their customers' needs and environment, but there are many different arrangements for delivering support, the rationale for which is not always clear. We found that there is scope to deliver activities such as support to the growth sectors more efficiently. In addition, although we found that the enterprise bodies are performing well against their individual performance measures, it is much more difficult to measure their contribution to the national outcomes in the national performance framework. It is important that the Government understands the enterprise bodies' contributions, individual and collective, to its economic strategy and the economic growth targets.

The committee will be aware that the Scottish Government has been undertaking a review of the skills and enterprise agencies. I understand that publication of the first stage of that work is imminent. We do not know what that will say yet, but back in July we said that the review offers a great opportunity to address some of the issues that are identified in our report.

Antony Clark, Gemma Diamond and I are very happy to answer any questions that the committee has.

**The Convener:** Thank you very much. I will ask a couple of general questions.

Key messages are set out at the start of the report, one of which relates to performance and performance measures. At paragraph 3 on page 5, you say:

"The NPF measures progress towards economic targets and outcomes but it does not measure the contribution of policies and initiatives to delivering these outcomes."

You highlight in the report that the standards of measuring performance in the different bodies are different from those used by the Scottish Government or in the NPF. Do other United Kingdom public bodies use other performance measures that might be useful when assessing the criteria that are applied in Scotland?

**Fraser McKinlay:** I will kick off and then I will ask the team to come in with a bit more detail. It is fair to say that Scotland is ahead of the game, if you like, by having a national performance framework and an outcomes-based approach, so it is not always easy to find strong comparators in other parts of the UK. Northern Ireland is just beginning that journey—it is consulting on a wellbeing framework—and Wales is getting there, too, but it is difficult to find things that are exactly comparable.

In the report, we use the example of the Northern Ireland economy and what we see as good practice in that area. I ask Gemma Diamond to say a little about that.

**Gemma Diamond (Audit Scotland):** In the report, we say that Scotland's economic strategy does not break down into actions and timescales, so it is very hard to see what will be delivered and when it will be delivered by, which would allow progress to be reviewed. We thought that it might be interesting for the Scottish Government to look at certain elements of what Northern Ireland does around that to see if it could replicate some of those. For example, Northern Ireland has a clear action plan and details which public bodies are responsible for delivering those actions and to what timescales.

On the performance measures, as Fraser McKinlay said, because Scotland has in essence been leading the way with an outcomes framework, it is difficult to find comparative measures. The enterprise agencies have a lot of performance measures—they measure their performance a lot as part of running the business, and they publish a lot. However, we cannot see what contribution that makes to the national performance framework and whether their success in meeting those performance measures is actually making any difference to the national outcomes. We would like a more step-by-step process in building up the outcomes so that we can see what will actually make a difference, which of the agencies contribute to the national outcomes and, if an outcome moves, which agency or partnership has actually made that difference. That is what we cannot see at the moment.

**The Convener:** Is that what you refer to in your recommendations on page 6, where you talk about the development of

“clear targets, timescales and actions”

and

“monitoring and reporting progress against the targets and actions”?

Is that what you have specifically identified as lacking?

**Gemma Diamond:** That relates to the economic strategy; it is about breaking it down in that way. The economic strategy is a wide-ranging high-level document. We want to see the underlying detail on how the strategy is made operational. We want to know what it means for the public bodies, what actions they need to undertake, who will actually do those things and when they will be done by, so that progress against those things can then be reviewed. That will make it easier to say how we measure performance. Once we know what the individual bodies have to achieve and by when, and what the performance target is for that, we can see what that actually means in terms of performance.

**The Convener:** So the detail is lacking. Whose responsibility is it to set things in motion to have that specific difficulty or problem dealt with?

**Fraser McKinlay:** Measuring the contribution to the national performance framework is for the Government, but obviously that involves working closely with the two enterprise bodies in particular and with the other partners that are involved.

Another part of the recommendation that you highlighted that we think is really important is about better understanding the money and how much is spent on this area. We estimated the amount of money that is spent, and we focused on the £2 billion or thereabouts that is spent by the strategic partners. If the Government recognises that that is the amount that directly contributes to supporting economic growth, it is important that it understands and assesses whether that is being spent in the right way and in the right places to ensure that the outcomes are being delivered.

**The Convener:** I have one final question before I open up the discussion to other members. You recommend

“routinely reviewing the economic strategy to ensure it remains relevant and fit for purpose”.

What sort of timeframes are you talking about?

**Fraser McKinlay:** Do you mean the timeframes for review?

**The Convener:** Yes. Does it depend on the area involved?

**Fraser McKinlay:** Yes. Although the economic strategy has changed and evolved over the years—its most recent iteration was in 2015—when we looked at the process of review, it was

difficult to see a clear, transparent and systematic process of considering what the bodies are trying to achieve, how they have done against that, what is happening in the world and what that means for how we change the objectives in future. We did not find much evidence of that systematic process of review, but we think that it is important. It is not for us to comment on whether the economic strategy or the growth sectors are right or wrong. However, we are looking for evidence of Government and the agencies taking a considered approach to ensure that the strategy and growth sectors continue to be the right ones.

I read with interest the *Official Report* of the committee's previous session, which was on fair work. One of the new elements in the strategy last year was inclusive growth. That raises an interesting question about the role of Scottish Enterprise and Highlands and Islands Enterprise in the fair work agenda. Have we gone through a process that ensures that they are clear about their role, and do we have measures in place to ensure that they contribute to that agenda and that we can measure that contribution?

The timescales would depend on circumstances. I am not suggesting that a review has to be done every year or two years. I do not think that it is for us to come up with that kind of rigid approach. Things will be reviewed on an on-going basis. However, given the degree of change that there has been, not just in Scotland but in the UK and Europe and in the global economy over the last wee while, we might have expected to see evidence of a more systematic review process.

**The Convener:** Thank you.

09:45

**John Mason (Glasgow Shettleston) (SNP):** Good morning. Over the years, I have read a number of Audit Scotland reports on a whole range of subjects. This report seems quite positive, in that no huge problems seem to be arising, whereas I have seen other reports that highlighted such problems arising. Is that fair comment?

**Fraser McKinlay:** That is absolutely fair comment. As you suggest, we recognise in the report that a lot of good work is happening, particularly in relation to the job that the two enterprise agencies are doing. They do their job well, take it very seriously, measure how they are doing and are able to account for the money that they are spending. The area for improvement is at that higher level and relates to taking a wider look and carrying out a better assessment of the contribution of those agencies and others to the national outcomes.

**John Mason:** If I am not mistaken, I think that the problem of tying detail into the national performance framework is a wide one that affects not only Scottish Enterprise and Highlands and Islands Enterprise. Indeed, one issue that has come up quite a lot in budget scrutiny is how we tie a budget figure into the big picture. I see you nodding, so I guess that that is the case, but is there any answer to that problem or is it just something that will not go away?

**Fraser McKinlay:** I absolutely agree, and I think that this is something that we all need to keep working at. You could argue that, in agreeing an outcomes approach when it took over back in 2007, the Government chose a difficult route. It is harder to do things this way—continuing to measure inputs and outputs is easier—but nevertheless we will continue to challenge, push and expect more. After all, if outcomes are being set in health, social care, the economy, the environment or whatever area, it is reasonable for us to expect clear plans, activities and measures to be in place for measuring those things over time.

We understand and accept that outcomes are, by definition, delivered in the long term; indeed, some might not be delivered for 10, 20 or 30 years. Because of that, it is even more important to know how you are doing and where you expect to be in, say, year 3, year 5 or year 10 as you make progress towards a particular outcome. That is the part that we find quite often lacking as we carry out our work.

**John Mason:** Thank you. The report highlights once or twice the whole question of what Scottish Enterprise and HIE do, whether there is duplication and why one or the other leads on something. In particular, paragraph 79 on page 32 says:

“It is not clear why some forms of support are delivered jointly or on behalf of the other”

and suggests that “there are historical reasons” for that. Can you give examples of that or tease it out a bit for me? For example, it seems to me that community broadband is mainly—though not entirely—a rural issue, so it seems pretty logical for HIE to lead on it. I do not know whether that it is written down somewhere, but it seems logical to me. Are there any other areas where there are such problems or issues?

**Fraser McKinlay:** You are absolutely right to highlight paragraph 79—although, to be fair, the previous two paragraphs highlight some of the areas where things are a bit clearer and where there is a better rationale for Scottish Enterprise or HIE leading on certain matters. I ask Antony Clark to say a little bit about the areas where things are not quite so clear.

**Antony Clark (Audit Scotland):** We have identified a degree of duplication in areas where Scottish Enterprise and Highlands and Islands Enterprise have specialist teams for growth sectors, and potential duplication in support for particular industries with regard to training advice and so on. There are issues at the national level with regard to potential duplication between the two bodies.

**John Mason:** I presume that the whole point of having the two bodies was that one would concentrate on the Highlands and Islands, with its low population and different challenges. Any business, even if it is doing a similar thing and even if it is growing, is going to face challenges in the Highlands and Islands that are different from those that are faced in, say, Glasgow or Edinburgh.

**Antony Clark:** Indeed, but in paragraph 80 we highlight a number of areas such as research and analysis at a national level, which is done by both bodies, although there might be a particular emphasis on lowland or Highland Scotland. However, we have also identified an element of duplication between HIE and Scottish Enterprise in sector strategies. It is quite possible for one of the bodies to take a lead with support from the other, but at the moment, it looks as though there are areas of overlap and duplication.

**John Mason:** Some of my colleagues might want to come in on that later.

In a couple of places, such as the case study 3 on page 41, the issue of exits—of ceasing support for a business—is mentioned. In my experience, if a business keeps growing, it will need or should have Scottish Enterprise support, but there is a suggestion that support should be given for a fixed term and there should be more exits. Should we be looking for or expecting more exits?

**Fraser McKinlay:** That is a question about where we get the biggest bang for our buck. It is about recognising that businesses will need some support as they start and grow, while identifying the point at which we can expect a business no longer to require public support, even if it is continuing to grow. There is an opportunity cost to that. If we continue to support a well-established business in continuing to grow and be successful, that money is not being spent somewhere else.

There is no easy fix. There will always have to be a judgment, which will be based on a range of factors. Our sense is that both agencies are quite sophisticated in making those judgments.

Equally, we had a couple of bits of evidence from supported companies that were not sure why they were still account managed. That suggests that it is worth asking the question, and there might be a set of criteria that could be used to



identify the point at which Scottish Enterprise or HIE says that a company is on its own now, exits and invests support and time somewhere else.

**John Mason:** They could then come back in if the business hits problems or goes into a new growth phase, for example.

**Fraser McKinlay:** Potentially, yes—or at some point they might decide that the business should not be supported by the public sector. It is important to remember that the whole point of involving state agencies in economic growth is to get involved in higher-risk activity. In a sense, the agencies deal with market failure, so they would be expected to operate in areas in which the market is not supporting the businesses, which means that there is an inherently higher degree of risk. The agencies do and should continue to ask themselves whether it is right that they continue to focus their time, attention and scarce public resources on businesses that are well established and have grown as opposed to supporting others that might need a bit more help earlier on. We are talking about having a clear rationale for those decisions.

It is similar to the earlier question about why some things are done the way they are. Some people say, “It’s aye been,” and we are saying that it is worth checking that.

**John Mason:** Thank you.

**Jackie Baillie (Dumbarton) (Lab):** Since the economy strategy was first published, I have spent a great deal of time asking for action plans and measurement frameworks, so the report is very welcome indeed. Is there any evidence that, between publication of its economic strategy and the report that is before us today, the Government has taken any action to improve the monitoring framework or produced any kind of action plan?

**Fraser McKinlay:** As it stands, and as it was published in July, the report says that we could not find what we expected to see in terms of a plan that says how the 2015 new strategy will be implemented.

There is an interesting debate to be had—as you can imagine, we had it often with the Government during production of the report—about what we expect. Sometimes, people think that, as auditors, we are a bit simplistic about that, which is why I was keen to emphasise that we understand the complexity. It is legitimate for us to ask the Government, when it is setting out four ambitious outcomes around innovation, internationalisation, investment and inclusive growth—the four I’s, as they are known—how it will do that, how it will know if it is on target, what are the roles of the bodies involved, and how the £2.2 billion or whatever the amount is, is being used. We hope that the review will capture some

of that. In that sense, its timing is good because we published this report at the same time as reports on higher education and colleges and bodies that are involved in the review. We are waiting with real interest to see what comes out of the first phase of the review and how it will be implemented. As far as we can tell, the story that we present in the report is the story as it stands.

**Jackie Baillie:** What would you like to see in that review? The committee also anticipates something being produced imminently. You have said that this is a great opportunity to address some issues, so what two or three headlines would you expect to see in that review?

**Fraser McKinlay:** As we say in the report’s recommendations, we would like to see a more detailed plan, if you like, for how the economic strategy and other strategies related to the skills and enterprise agencies will be delivered. We also think it important to see something about how the agencies work together. My understanding is that the review has focused not so much on individual organisations but on how they work together and the system of support that they provide. It is important that that is clear and well set out. It is important that the Government takes the opportunity to look, too, at any question about the role of an individual body—SE, HIE, the Scottish Further and Higher Education Funding Council or whatever. It seems that it would be a bit of a missed opportunity that a review would not also take the chance to look at the agencies individually.

Our colleges overview report, which we published earlier in the year, made a specific recommendation about examining the role of the funding council, which has not been looked at fundamentally in more than 10 years. It seems to be a good opportunity to do such a review. I would pick out those two or three things.

**Jackie Baillie:** We will look out for them.

I will focus on two key economic issues that face Scotland: the slowdown in economic growth and the underperformance of the Scottish economy compared to the UK economy, which you comment on in the opening to the report. You cite that gross domestic product has increased by 6.8 per cent since 2012 in Scotland but by 8.8 per cent across the UK over the same period. If one was to level criticism at Audit Scotland—of course, I do not want to do so; nevertheless, I have a question—why was that not considered by Audit Scotland when it looked at the purpose of Scottish Enterprise and HIE? There is no commentary about what they are doing to close that gap or to improve economic growth, in the light of the fact that there has been a slowdown.

**Fraser McKinlay:** That is a very fair question. We grappled with the scope of the audit: it could have been very big. We did not set out to audit the performance of the Scottish economy primarily because that is not our job, and neither are we best placed to do it—a lot of other people are better placed to do it. We were particularly keen to focus on the agencies because we had not looked at them for quite a long time. In a sense, what we are trying to say in the report relates to the discussion that we had with the convener about making the link between the role of the economic agencies and what the Government is trying to achieve at national level.

The point that Jackie Baillie is making is, I think, that we cannot tell what the economic development agencies' contribution is. We can assess how they are performing as organisations in their own right, and they make an effort to link their work to the national outcomes, but it is very difficult to assess their contribution to the performance of the Scottish economy. As I said right at the start, many things impact on the performance of the Scottish economy, so there is always a need to be realistic about what Government enterprise agencies can do in that context.

**Jackie Baillie:** As I think you know, I was not asking you to assess the Scottish economy. I was, rather, asking for an assessment of the two principal agencies that are charged with developing the economy, and their contribution to closing the gap that I mentioned. Are you saying that you did not have the information to enable that assessment to be made and that, therefore, the Government does not have that information, either?

**Fraser McKinlay:** The core point in our report is that it is hard to assess the contribution of the economic development agencies and others that are involved in economic growth, to successful delivery of the outcomes—bearing in mind that many other things that are not within the direct influence or control of the Government impact on the performance of the economy.

**Jackie Baillie:** I will ask one final question, convener, if I may. Mackay Consultants have been in touch with the committee to suggest that although the case studies are all interesting and informative, they have not been subjected to objective analysis or commentary. How do you respond to that?

**Fraser McKinlay:** First, we absolutely welcome such engagement with Mackay Consultants and the other people who have been in touch. We did the case studies to provide a bit of colour and flavour in what might otherwise have been quite a dry subject. It is important to give some real-life stuff. We did not set out to audit those activities;

we were just giving a flavour of the kind of things that are out there. Various people—not just Mackay Consultants—have been in touch to say that they agree or disagree. We find that the subject is genuinely important to people and they have strong views about it, which we welcome. We like the fact that when we publish a report, people engage with it. We would be more concerned if nobody noticed.

10:00

**Gil Paterson (Clydebank and Milngavie) (SNP):** First I have a general question, and then I will move on to a couple of specific questions.

An issue that has bedevilled this new committee in its short existence, and which has come up at every single meeting in this parliamentary session, concerns statistics that are particular to Scotland. We just cannot find them. We know that they exist because my colleague Gordon MacDonald and I have been contributing to them. Some are minor, but some are crucial not only for people who run businesses in Scotland but for the Scottish economy. They exist, but we cannot get our hands on them. What is the source of your statistics? Can we get hold of them so that we can interrogate them? It would help us immensely.

**Fraser McKinlay:** You are absolutely right to raise that issue. At the committee's previous meeting, Dave Watson called Audit Scotland "our best number cruncher". I was pleased to read that. It is a big chunk of our work, and we often find it hard to make conclusions based on the available data. Gemma Diamond will say a bit about the specifics, but the organisation is generally very conscious of the issue, and is keen to make publicly available all the data that we have. We have started routinely publishing not just our reports but the data that underpins them. We have software called Tableau, which allows data to be interrogated in interesting ways according to region and all sorts of other things. We are very keen to do that so that people can do their own analyses, which helps with the engagement that we spoke about a moment ago.

**Gemma Diamond:** We did not create any of the data for the report—the data came from the Scottish Government and the enterprise agencies. Some data is publicly available, and some was created by the agencies for us. We were trying to get the same types of data from both so that we could compare like with like, but we found that to be quite difficult at times. We obtained everything in the report from the agencies, so you might want to direct your questions about data to them. We can provide the committee with further details of the data that appears in the report, which we obtained from the enterprise agencies and the Scottish Government.

**Gil Paterson:** That would be useful; I would like to see the data. There is a conundrum that the committee has somehow to solve with regard to why we cannot get the information.

I will refer in particular to exhibit 1 on page 9, following the point that Jackie Baillie made. The figure for productivity is £30.23 an hour for Scotland in comparison with £30.97 for the UK as a whole. Does the UK figure include Scotland? Can you separate out Ireland and Wales, which might be better comparators than the UK and all that goes along with it? Is there a way to marry the data with the shape of the Scottish economy? Would not that approach be more fair and sensible than comparing Scotland with the UK?

**Gemma Diamond:** I do not have the detail of how the data is broken down at present, but I can look into that and come back to you with the information. In exhibit 1, we wanted to show in one chart as many key points about the economy as possible. I can come back to you with exactly what is included and excluded, and how that breaks down, to see whether we can make those comparisons.

**Gil Paterson:** The substance of my question concerns the fact that we are comparing Scotland with the United Kingdom. We know the black hole in the United Kingdom—London is the black hole that disturbs everything that surrounds it, including the whole of England. There are difficulties with including London in a comparison that also involves Scotland, Northern Ireland and the regions of England. London enjoys massive subsidies to support its infrastructure. All of us contribute to that, but we do not see the benefit of it. Of course, one of the biggest issues for an employer is the London weighting—which is an issue that goes wider than London. Is it reasonable to make a comparison based on the figures in your report, given all the issues that I have just mentioned? Should we be looking at things in a different way? Do you agree that, if London were taken out of the comparison, Scotland might be seen to be performing extremely well? I do not know; I am asking, and there is no way for me to determine whether that statement is correct.

**Fraser McKinlay:** We take as our starting point what are seen to be credible and respected statistics from the Office for National Statistics and other recognised sources. As Gemma Diamond said, we tend not to create such statistics ourselves unless we have a clear reason to do it, because—as this conversation demonstrates—we can get into big debates about the numbers. The question is a good one, however. We can come back to the committee with a breakdown of the figures—particularly that productivity number.

**Gil Paterson:** To go back to my original question, my main point is that if we do not have for Scotland discernible figures that we can interrogate, how can we possibly say that the figures are categoric? I am not blaming you for that, but it is a serious question—particularly at the juncture at which we and the rest of the UK find ourselves with regard to Brexit. The questions are fundamental to the narrative, at this point. Therefore, your agency and others are sailing close to the wind with regard to factual results if we cannot get figures that are particular to Scotland.

**Fraser McKinlay:** My final comment would be that there are lots of ways of cutting the data. I do not think that the problem is a lack of data; it is more to do with the way in which the data is presented, what we do with it and how it is made sense of. We have loads of information and data; the challenge is to make it usable. Analysis is being done by many people and organisations, including the Fraser of Allander institute and Mackay Consultants. I am not sure that you will ever get a universally agreed set of figures that everyone will sign up to. There are lots of ways of presenting the information. In this report, we focused not on the issues that Gil Paterson mentioned—as I said, we are not economists—but on assessing the contribution of the agencies.

**Gil Paterson:** I appreciate that. Thank you.

**The Convener:** Mr McKinlay has said that Audit Scotland will come back to us with details on the figures and where they come from, but I do not think that it wishes to get involved in the debate about whether London is a powerhouse that subsidises the rest of the UK or a “black hole”, as Mr Paterson described it.

**Dean Lockhart (Mid Scotland and Fife) (Con):** I thank our guests for coming along today.

In the past decade, the Scottish economy has underperformed against the rest of the UK in GDP and employment growth. I must say, in fact, that with regard to employment growth, it has also underperformed Wales and Northern Ireland. The latest GDP figures that came out about two weeks ago show that that underperformance continues relative to the rest of the UK. The Fraser of Allander institute says that now that the Scottish Parliament has fiscal powers, the relative underperformance of the Scottish economy will contribute to the Scottish budget and will possibly result in lower public spending.

Your report says that the enterprise bodies are performing well but the Scottish Government needs a clearer plan for delivering its economic strategy. Can you give me a couple of reasons why the Scottish economy is underperforming? I appreciate that this is slightly beyond the scope of

the report but, in your mind, why are we underperforming in relation to not only the UK but other small countries in the European Union in economic growth?

**Fraser McKinlay:** If it is okay with the convener, I will politely sidestep that question, because we are not best placed to answer it, I am afraid. It is interesting—this is why the work was so fascinating to do—that if we got 10 economists in the room, we would probably get 10 different answers to that question. Audit Scotland is not best placed to add a view.

**Dean Lockhart:** Maybe I can make the question more specific; I apologise for making it so broad. How is the gap between what the enterprise bodies do and the four Is economic policy best measured or bridged?

**Fraser McKinlay:** I can deal with that question, but I might also ask Gemma Diamond to come in.

Obviously, the 2015 strategy was revised last year, and a couple of important changes were made, one of which related to inclusive growth. That theme has run through economic policy for a long time, but that was the first time that it was included specifically as an objective. I do not think that we or the Government have specifically said at any point that the approach to delivering inclusive growth is X and the role of the agencies in delivering that bit of the strategy is Y.

The other thing that is interesting for us—the Government has been very clear about this—is that the four Is are complementary and support one another, so inclusive growth is an important element of investment, innovation and so on. We think that there might sometimes be tensions in that.

It is important that the strategy and the plan for delivering it acknowledge some of the challenges that the committee talked about in discussing fair work with trade union colleagues before the recess. What struck me about that conversation was that it demonstrated quite a fundamental shift in the structure of the economy, which is very different from what it was 10 years ago. It will be very different again in 10 or 20 years. Our challenge to the Government and the agencies is this: how are you ensuring that the strategy and the plan for delivering it remain fit for purpose not just for now, but for what the economy will look like in 10, 15 or 20 years?

**Andy Wightman (Lothian) (Green):** I have a couple of questions, which I will deal with one at a time.

I was interested in paragraph 39 of the report, which says:

“All public bodies’ spending supports economic growth in some way, both directly and indirectly. There is no agreed

definition of economic development activity which means that total public sector spending on direct support for economic growth is unknown.”

The report goes on to acknowledge that areas such as education whose “primary purpose” is not economic growth obviously support economic growth. You acknowledge that there are problems there.

The European Court of Auditors, for example, has identified millions of euros in agricultural subsidies in Scotland. Its 2011 audit report identified beneficiaries who received up to

“1 million euro per year ... without having any agricultural activity on ... land”.

Commentators have suggested that 25 to 30 per cent of agricultural subsidies are doing absolutely nothing.

Although we may have difficulty in identifying the areas that support economic activity, we could certainly identify areas that are doing absolutely nothing at all with public expenditure. What work needs to be done to get over that very large deficiency whereby we do not know what public sector spending is doing to support economic growth? Do we need to do anything about the fact that there is no agreed definition of economic development activity?

**Fraser McKinlay:** I will kick off on that and then ask Antony Clark to come in, if I may.

We are keen to understand the definition of economic development to the point that it is useful. We are not suggesting that we should spend for ever doing an academic exercise to come up with a theoretical definition, but we think that it is important to define it so that we can figure out what money is being spent on it and what difference it is making. That is the job to be done.

Earlier, I mentioned that we try not to invent—that sounds bad. I mean that we try to do some analysis and come up with figures of our own. In fact, we have done that: the £12 billion figure was from analysis at own hand, and it proved to be contentious. As you say, there is a lot of debate about the extent to which all that money is spent on economic growth, so there is absolutely a job to be done there.

Antony Clark will come in on the specifics of what we think should be done.

10:15

**Antony Clark:** This takes us back to our earlier conversation about understanding the different bodies’ contribution to supporting Scotland’s economic strategy. It is very clear that the money that is spent on schools, universities and colleges, on transport and infrastructure and so on all

contributes to supporting economic growth, but we do not think that it is feasible to try to allocate every pound, shilling or penny to supporting the economic strategy. What we need is a better understanding of the alignment of the different bodies and the contribution that they are making, which means having a better understanding of how the universities sector, the colleges sector and the schools sector are supporting and contributing to the broader national strategy for supporting economic growth.

**Andy Wightman:** But you have attempted to come up with a figure.

**Antony Clark:** Yes, we have.

**Andy Wightman:** I think that you will agree that that rather crude exercise is not very satisfactory, although I think that what you were trying to do was to highlight the deficiency. Nevertheless, you say that this particular figure is “unknown”, so clearly we need to do something. We do not, as Fraser McKinlay has suggested, need to do anything very complex, because it could end up being a very large academic and bureaucratic exercise, but we clearly need something that makes it easier for those who are charged with scrutinising public expenditure—us—to make a reasonable assessment of whether it is supporting economic development.

**Antony Clark:** Indeed. As Mr McKinlay said in response to Jackie Baillie’s question on what we would like to come out of the review that is taking place at the moment, our assumption is that one of its outcomes might be a better understanding of how the funding for the various bodies supports Scotland’s economic strategy. That might necessarily have to be undertaken at a relatively high level and it would have to be underpinned by a load of assumptions, but that seems to us to be a reasonable step forward compared from where we are at the moment.

**Andy Wightman:** My second question relates to paragraph 85 on page 34, in which you say:

“Scottish Enterprise and HIE operate in a high-risk environment. They should only invest when the private sector, including banks or other investors, is unwilling or unable to.”

When you say that they “should only invest” in such circumstances, is that your opinion? *[Interruption.]*

**Fraser McKinlay:** I am sorry, Mr Wightman—I thought that you were going to say something else there. My answer to your question is no—it is more of a statement of fact. That is their job, in a sense.

**Andy Wightman:** I am interested in knowing where you get that from, given that enterprise agencies clearly invest in areas where the private

sector is perfectly willing to do so. I highlight as an example the support that Highlands and Islands Enterprise gives to community land acquisition. Plenty of people are willing to buy that land, but it provides substantial support in that respect.

**Fraser McKinlay:** Again, there will be lots of reasons why HIE thinks that public support is a good idea in that respect. As with all of this, it is never a black-and-white issue of the public sector investing only here and the private sector investing only there. There will always be grey areas. What we—and, to be fair, the agencies—are clear about is the need for a good rationale for the use of public money adding value in those and other cases, which takes us into all the technical measurements with regard to additionality and so on. The agencies are clear about that, and it forms part of the evaluation frameworks for the individual bodies.

When we talk in the report about the role of individual bodies and their performing relatively well, that includes the fact that they measure how their investments have done and the extent to which they have met their objectives. That part of the report is not meant to read like some black-and-white statement that only the public sector does this and only the private sector does that; I apologise if it does, because we know that it is very often a combination of those things.

**Andy Wightman:** Would you be able to let the committee see the footnote, as it were, for that—in other words, your basis for understanding that the agencies “should only invest” in those circumstances?

**Fraser McKinlay:** I do not think that there is a specific reference to that. As I said earlier, the whole point of having state enterprise agencies is to work in a riskier environment where the market by itself will not deal with such matters.

**Andy Wightman:** With respect, I do not think that that is my point. Well, it might or might not be the point; if it is, can you tell me which statute or Government policy says so? I am just interested in finding out what, if you were to footnote that statement, you would set out as evidence for it. I accept it in very general terms but, after the war, coal, gas, electricity and trains were not nationalised because the private sector could not do it all; rather, that was done for a wide range of reasons, and the public sector has intervened for a wide range of reasons ever since.

**The Convener:** Andy Wightman is asking what the statutory basis, policy guidance or other reason is for putting in that statement. That is what you are looking for, is it not?

**Andy Wightman:** Yes.

**Fraser McKinlay:** We can certainly go and dig that out. I am hesitating slightly because we will need to double-check that it is written down in those terms somewhere. It may be that how we have written it in the report is more categorical than it should be. We will come back to the committee and Mr Wightman on the issue.

**Gillian Martin (Aberdeenshire East) (SNP):** I will bring the discussion back to support for businesses. The sixth key message in your report begins:

"The full range of public sector support for businesses is not known which creates a risk of duplication and inefficiency. Public sector support is not well understood by businesses and there is scope to simplify".

What is the background to that statement and what investigation did you do to come up with that analysis?

**Fraser McKinlay:** Part of that was from talking to businesses. We went out and spoke to businesses. We always try to do that, and in this report it was no different. We tried to engage with business generally, which proved to be tricky, but we also spoke to businesses that are account managed and others that have had experience of working with the agencies. A message that we got back was that the landscape out there is quite complicated. We have not focused on the role of local government in all this, but business gateways are another part of the landscape. We say in the report that, if you put yourself in the shoes of a small business owner, the landscape is quite complicated, and there may be things that we could do to help to simplify that.

**Gemma Diamond:** The Government has tried to consolidate all the websites that help to support businesses into the mygov.scot website, but even that has more than 600 different funding streams available for business. It is a very complicated landscape for somebody to try and navigate their way through. When we looked at the support for the food and drink and the energy sectors, we saw that there is a wide range of funding streams from different bodies with different criteria. Again, it is difficult to know whose door you can knock on and, if you knock on a door and get refused, where else you can go.

A recent review of the food and drink sector could not identify all the money that was spent in supporting the sector. There needs to be a better understanding and rationalisation of all those funding streams. It also needs to be made very clear that there is one route in for businesses, with clear signposting after that. More could be done in that area to make it easier for businesses to get support.

**Gillian Martin:** When you were doing that investigation, did you also speak to people who were starting out in business?

**Gemma Diamond:** We generally spoke to businesses that had had support from Scottish Enterprise and Highlands and Islands Enterprise. We also spoke to business representative organisations. We did not get involved in the business gateway side of things, which is where some of those smaller businesses would have their first engagement; that was outside the scope of the report, in order to keep it manageable. However, we spoke to the Federation of Small Businesses, for example, about some of the issues that it encounters. We tried to get as wide a range of opinions as we could, while understanding that the business community is very large. There are lots of types of businesses and they will have different opinions on the supports that are out there. From the opinions that we gathered, and from looking into the issues ourselves, those are the conclusions that we reached.

**Fraser McKinlay:** I will very briefly add to that, convener, on a learning point from doing the report. At the outset, we tried a social media campaign to engage the business community, which is something that we have struggled with. It is fair to say that the approach was not an overwhelming success, so there is something for us to reflect on about how we get access to, speak to and engage with business owners and companies that are not already in the system. We will be reflecting on that for future work.

**Gillian Martin:** The reason why I ask about the issue is that, in the north-east, quite a lot of people are starting up businesses after being made redundant from the oil and gas industry. I have been spending a lot of time with people, particularly women, who are starting up in business in my area. It seems to me that those potential businesspeople of the future who are not quite there yet do not know how to access any of the help. Did you look at that?

**Fraser McKinlay:** We did not look at that directly. As Gemma Diamond said, we would expect those people to come through the business gateway route. That touches on the point that we make in the report that, although we focused on Scottish Enterprise and HIE, we recognise that lots of other bodies are in play here, such as councils, colleges and universities. We might expect those bodies to help the people who, for lots of reasons, are deciding to embark on a new career or build a new business. That is another reason why it is important that there is a sense of coherence in the public sector partners and an acceptance that that is part of everyone's job. If they come across such people in a different

context, they should be able to provide advice and guidance or at least signposting to the right place to go. That kind of joined-upness is exactly what we are looking for. It will be interesting to see whether the review touches on that.

**Gillian Martin:** Thank you—that is helpful.

**The Convener:** I want to bring in other members of the committee. In light of the time constraints, I ask them to make their questions brief, sharp and to the point. Perhaps they could ask the best question.

**Liam Kerr (North East Scotland) (Con):** The best question out of four? Right—thanks, convener.

I first want to take up Gillian Martin's point. On page 18, at paragraph 36, the report mentions that the agencies had tried to identify the 600 funding streams and the public support that is available but abandoned that because it was too complex. Gemma Diamond said that more can be done but, if even the agencies cannot get through that, what practically can be done? Indeed, what is being done and by whom?

**Gemma Diamond:** As you say, an attempt was made, but it was abandoned at an early stage. We are saying that that is a problem that is worthy of more investigation. There are many funding streams and it is complicated, but we should not accept that it is too complicated and that we cannot do anything about it. We are saying that the situation is worthy of further investigation and work. It is worth looking to see whether we can map out the area, simplify it and make things easier. We are providing a push to say, "Actually, please can you carry on with that work?"

**The Convener:** I have just checked and I think that our guests can stay for slightly longer than we had scheduled for—perhaps until quarter to 11.

**Fraser McKinlay:** That is absolutely fine.

**The Convener:** That gives us a bit more time for members who still wish to ask questions. Perhaps Liam Kerr wants to follow up on one of those points.

**Liam Kerr:** I have a question that is in the same area as the interesting point that Andy Wightman made. In paragraph 87, you say that a return on investment has been made of about 20 per cent and that there have been write-offs of about £39 million on those investments. Do you have a view on whether that is good value for the public purse?

**Fraser McKinlay:** The short answer is that we have not done that assessment as part of the work on the report. In essence, that gets to the heart of the conversation that we just had with Mr Wightman about what the job of an enterprise agency is. We get some assurance from the fact

that the systems around what is invested and what is written off are well governed. The measurement systems that the agencies have in place are, we think, sound. The judgment on value for money is notoriously difficult to make, because we need to bring in opportunity costs and consider whether, if we had not invested the money in one thing, we could have invested it in something else. The agencies go through a whole system and assessment process in making those judgments, and it is hard for us to second-guess that.

10:30

**Gordon MacDonald (Edinburgh Pentlands) (SNP):** In paragraph 45, on page 21, you talk about the growth of city region deals and indicate that, I think, six are being considered in Scotland. What impact does the growth of city region deals have on the role and remit of the enterprise agencies, given that city region deals give areas the opportunity to set their own investment priorities?

**Fraser McKinlay:** That is a great question. City deals and growth deals are a great example of why we are saying that the Government and agencies need to continually consider the changing environment. Such deals are a relatively new phenomenon, they are quite complex, the funding for them comes from lots of different places and there is risk involved for lots of parties. A lot of my work is with councils and, in some ways, city deals, region deals and growth deals are the biggest show in town for the councils involved.

There is a need for the agencies to consider and set out more clearly their role in these things and whether it is the same everywhere. Is their involvement in the Glasgow city region deal the same as it is in the Inverness and Highland city region deal, for example? These things are a great example of how the world is changing quite quickly and of why the agencies' strategy, plans and contribution need to be set out more clearly.

**Gordon MacDonald:** Do you have a particular view of what their role should be?

**Fraser McKinlay:** We do not at the moment, and nor is it necessarily for us to have one. My guess is that it will not be a one-size-fits-all role. I would imagine that the contribution that HIE makes to the Highland growth deal would be different from the one that SE makes to Glasgow's deal, the Ayrshires' deal or the Fife and Lothian one. The point of the regional deals is that they are all quite different. What is important is that the agencies have an approach that best identifies what contribution they can make—if, indeed, they make any contribution at all.

**Gordon MacDonald:** I return to the subject of data, although I know that everybody has touched on it. Given the size of the UK in comparison with Scotland, are there any European nations of a similar size to Scotland that we should look at to see what good practice there is in their enterprise agency work?

**Gemma Diamond:** The review has been considering that and research that was undertaken to look at arrangements in other countries has recently been published. We will certainly look to see how that is taken forward as part of the review.

**Gordon MacDonald:** You have made comparisons between Scotland and the rest of the UK. Would it not be more helpful to publish comparisons between the 12 regions that the Office for National Statistics uses to see how Scotland fits in with them than to have what is a very blunt comparison with the rest of the UK?

The regional and local economic growth stats for 2010 to 2014 that the House of Commons library produced at the end of August are an example. If we exclude London, which obviously skews everything in the rest of the UK, we find that compared with the other 11 regions in the UK, Scotland is in fourth place on economic growth. Surely that is a better way of presenting the figures—showing the context of all the regions in the UK to see exactly where we are, rather than the blunt approach of comparing Scotland with the UK figure, which is skewed by London.

**Dean Lockhart:** I guess that those numbers will include an oil price.

**Gordon MacDonald:** No they do not, but I am asking the witnesses.

**The Convener:** Gordon MacDonald is asking the questions at the minute.

**Fraser McKinlay:** That is helpful feedback and we will reflect on it for the next time round. We included the figures to give some kind of context, but Gordon MacDonald's point is well made and we can certainly look at introducing some different measures on the understanding that, as I said, I am not sure that we will get to an agreed set of numbers. However, your feedback is very helpful.

**The Convener:** I suppose that your difficulty in doing that could be that you would be looking at a variety of areas that are very different—there are specific areas such as Birmingham, or the north-east where the oil industry takes out the effect of London. Is that part of your remit?

**Fraser McKinlay:** That is the point that I have been trying to make, convener. Our starting point is well-recognised and well-used figures; for the purposes of setting the context for this exercise, the UK comparison was, I guess, the most

straightforward to put in a report. I take your point, though, that other measures are available, and all I am saying is that we will consider that in future.

**Richard Leonard (Central Scotland) (Lab):** Mr McKinlay, you have described the case studies as colour in the report. Will you reflect on the colour sparked by the investment in Amazon in Dunfermline? In 2013, I think, it was revealed that it received £2.5 million of Scottish Government investment in the same year that it paid corporation tax of £2.4 million on a turnover of more than £4 billion. Does that represent a sensible route for investment by the public purse?

Secondly, you mentioned fair work being a growing part of the consideration of economic development. Amazon is, of course, notorious as an employer that uses zero-hours contracts extensively, is not, as I understand it, a living wage employer and refuses to recognise trade unions; so I do not suppose that it qualifies for the Scottish business pledge. Do you have a view on that?

**Fraser McKinlay:** Again, you might not be surprised to hear that my answer is: not directly. Amazon is a good example and provides a good case study because—it is worth bearing this in mind—such big inward investments are very often a competitive process and other places were looking for Amazon to invest in them. I am genuinely not making any comment on some of the points that you have made with regard to Amazon as a business, but I guess that part of the judgment that Scottish Enterprise and the Government have to make is that if they do not provide support, it might go elsewhere.

As for your question about fair work, you have raised an interesting issue. I have already mentioned the inclusive growth part of the strategy and potential tensions in that respect. Examples such as Amazon show why it is important for the enterprise agencies to be absolutely crystal clear about their role with regard to inclusive growth and fair work. As these kinds of opportunities present themselves, the fair work and inclusive growth element needs to be an important part of the consideration. I can genuinely make no comment on whether or not that was the case with Amazon or is the case with it as an employer, but it needs to be the case in future. If the Government has made inclusive growth an equal strand among the strategy's four strands, that must feed through into how everyone does their work, including the kind of decision making around supporting Amazon and others to make inward investment.

**Richard Leonard:** But you are not saying that that would make Amazon or its equivalent ineligible for support in future.

**Fraser McKinlay:** I am not saying that—I genuinely have no idea.



**Richard Leonard:** On a different point, I want to highlight a remark that you have made in paragraph 30 but which I am not sure has made its way into your final recommendations. With regard to the strategic forum, you say:

“No details of the Strategic Forum are publicly available, including its remit, how often it meets and what it discusses. There are also no details of the impact it has had on collaborative working.”

In light of those comments, do you have any recommendations to make about the strategic forum?

**Fraser McKinlay:** That is a very fair question. If the strategic forum is a thing that is genuinely supposed to be making a difference to how all of this works, it should be more transparent and we should have a better sense of the job it does. Our sense was that the forum's role was a bit unclear; it was a kind of place where people could get together and share stuff. If it is to be a decision-making forum or an engine for some of that stuff, it needs to be given the weight that that brings with it.

**Richard Leonard:** Is it not chaired by a cabinet secretary?

**Fraser McKinlay:** Yes, it is.

**The Convener:** Are you saying that that is now your recommendation or is it something that, along with the other issues that have been raised, you want to look at and come back to us on? After all, you might want to look at some parameters or guidelines for the forum before you commit to a particular recommendation—or are you happy to commit to a recommendation here and now?

**Gemma Diamond:** When we were making our recommendations, we were conscious of the weaknesses of the strategic forum and, going forward into the review, we did not want to narrow who might be in the strategic forum in future. Who are the key bodies that are charged with supporting Scotland's economic growth, who should be in that strategic forum and what should it do will all be considered as part of the review. We made those wider recommendations while acknowledging the weaknesses but not making any specific recommendations about the strategic forum until we know the outcome of the review and how it might look in future. We did not want to narrow the Government's options in making the recommendations.

**The Convener:** I suppose that it would fall under monitoring and reporting progress, which is one of your recommendations. As has been pointed out, if there is no transparency about the strategic forum, it can hardly be monitored.

**Fraser McKinlay:** Indeed, and, as Gemma Diamond said, the review is a good opportunity for

the Government to look at the role of the strategic forum, so I would also have it under that recommendation.

**The Convener:** Did you want to come back on that point, Richard Leonard?

**Richard Leonard:** No, that is fine.

**Ash Denham (Edinburgh Eastern) (SNP):** I want to pick up on a theme that emerged earlier. In the report, Audit Scotland says that the development agencies are performing well against their own performance measures and that they account for only 2 per cent of public sector spending. My point is that we need to be quite realistic about what the development agencies can achieve. Our witnesses have said that measuring their contribution to economic growth is difficult and have mentioned a number of reasons why that is, such as time lag, isolating factors and their influence, and other factors such as what is happening in the global economy that mean that it would be quite unreasonable to expect the development agencies to have any radical effect on the Scottish economy. They have also said that there is a lack of ability to measure the development agencies' contribution to the national performance framework. Those are obviously two different things.

In paragraph 27, the reports says that other countries' approaches to supporting economic growth were considered. Have other countries solved the problem of measuring the performance of development agencies and their support for businesses against high-level performance indicators like the national performance framework?

**Fraser McKinlay:** I do not think that we found anywhere that has absolutely cracked it. Northern Ireland seemed to be as good an example as we found of taking a high-level strategy and underpinning it with clearer timescales and actions and responsibilities for organisations that can be measured against.

As I said earlier, accepting the fact that outcomes will be long term in nature, it is absolutely reasonable to expect there to be some interim measures that tell us whether we are on track. As you mentioned, we need to recognise that lots of other things are at play in the economy that mean that there is no straight line that means that we can say that if the agencies perform well, the Scottish economy will perform well; clearly, it is not that straightforward. However, we expect the agencies to have some kind of impact or influence on the economy and for them to be clear about their role, how they are doing their job and how they are spending their money.

While we focus mainly on the two agencies, we also attempted to look at the wider agencies in the

strategic forum, which spend £2.2 billion. That is why we made the wider assessment of the £12 billion that one could say is directed towards economic growth. However, we recognise that the wider we draw the circle, the more complex it gets. As Antony Clark said earlier, alignment is important in all of that.

Our specific recommendation about the money is about estimating the total spend on the four strategic priorities. We are suggesting that, rather than starting with how much money each body spends, we should start with the priorities and ask how much money goes to each of them. That information will come from lots of different places, but starting from that end of the telescope will give us a better chance of coming up with a set of meaningful numbers that we can do something with.

**The Convener:** Thank you, and I thank our guests for coming today.

10:44

*Meeting continued in private until 12:27.*

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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