



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Economy, Jobs and Fair Work Committee

**Tuesday 6 December 2016**

**Session 5**



The Scottish Parliament  
Pàrlamaid na h-Alba

© Parliamentary copyright. Scottish Parliamentary Corporate Body

Information on the Scottish Parliament's copyright policy can be found on the website - [www.parliament.scot](http://www.parliament.scot) or by contacting Public Information on 0131 348 5000

---

**Tuesday 6 December 2016**

**CONTENTS**

	<b>Col.</b>
<b>DECISION ON TAKING BUSINESS IN PRIVATE .....</b>	<b>1</b>
<b>DRAFT BUDGET SCRUTINY 2017-18 .....</b>	<b>2</b>

---

**ECONOMY, JOBS AND FAIR WORK COMMITTEE**  
**14<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:**

Forbes Duthie (Highlands and Islands Enterprise)  
Iain Scott (Scottish Enterprise)  
Dr Lena Wilson (Scottish Enterprise)  
Charlotte Wright (Highlands and Islands Enterprise)

**CLERK TO THE COMMITTEE**

Alison Walker

**LOCATION**

The David Livingstone Room (CR6)



## Scottish Parliament

### Economy, Jobs and Fair Work Committee

*Tuesday 6 December 2016*

*[The Convener opened the meeting at 09:30]*

### Decision on Taking Business in Private

**The Convener (Gordon Lindhurst):** Good morning, everyone. Welcome to the 14th meeting of the Economy, Jobs and Fair Work Committee. I ask everyone to turn off or otherwise turn to silent all electrical devices that might interfere with the sound system.

Agenda item 1 is a decision on whether to take item 3 in private. Do we agree to do that?

**Members** *indicated agreement.*

## Draft Budget Scrutiny 2017-18

09:30

**The Convener:** I welcome our witnesses from Highlands and Islands Enterprise: Charlotte Wright, interim chief executive; and Forbes Duthie, director of finance and corporate services. Good morning to both of you. There is no need to work the buttons; the sound desk will take care of that. If you want to come in, simply raise your hand or come in as you are able to. We will start with a question from committee member Gordon MacDonald.

**Gordon MacDonald (Edinburgh Pentlands) (SNP):** Thank you, convener. Good morning—

**The Convener:** Sorry, Gordon—my apologies. I understand that Charlotte Wright has a brief opening statement. Perhaps she could give that first, and then Gordon will ask his question.

**Charlotte Wright (Highlands and Islands Enterprise):** Thank you for the opportunity to come before the committee and, in particular, for allowing me to give this short statement. I am aware that none of the committee members represents any part of the Highlands and Islands and that it might be helpful to give a little bit of background about the area and HIE's work.

The region is diverse and beautiful, and the economy and geography present us with challenges and great opportunities. It covers half of Scotland's landmass, but contains only 8 per cent of the population, so the population is quite dispersed, apart from in the main city of Inverness, which is fast-growing. We have more than a hundred inhabited islands, some of which have fewer than 100 residents—Foula, Papa Westray and the Fair Isle, for example.

In the 50 years since our predecessor, the Highlands and Islands Development Board, was established, we have seen significant progress in the region, particularly around population growth. In the late 1960s, when HIDB was formed, the population was in freefall. That situation has been pretty much turned around.

There are areas where population levels give us cause for concern. In Argyll, there is still loss of population and in areas such as the Western Isles, although it has enjoyed population growth, there is concern about the impacts on working-age and young people. We are not complacent about the issue, which continues to be a challenge.

Highlands and Islands Enterprise has a unique remit, combining social and economic development. That attracts a lot of interest from around the world and we host a lot of visits to see

what we do and how we do it in the Highlands and Islands.

Our role is to deliver Scotland's economic strategy. We do that through our four operational priorities—which in turn contribute to one or more of the four Is in Scotland's economic strategy—and I will briefly describe those.

First, we look to support businesses and social enterprises to achieve their growth aspirations. Within our account management portfolio, we support more than 400 businesses and more than 50 social enterprises, which receive tailored support through dedicated account managers. They have access to a range of programmes and powers on financial investment, leadership and management, innovation and international trade.

We choose who is brought into account management based on who has the greatest opportunity to grow, so the size and scale will vary across the region. In a fragile area, a business growing from three to four or five employees is as significant as one elsewhere that is growing from 20 to 30, for example.

We also look to support the growth sectors. We ensure that we focus in on enterprises that offer place-based distinctiveness that makes the most of our assets, gives us a competitive advantage and contributes to Scotland's economy. I will give some brief examples of those by sector.

In life sciences, we have recently supported Lifescan—a Johnson & Johnson company, based in Inverness, that employs more than 1,000 people—with research and development. That is helping to anchor that significant company in the Highlands and Islands—it is focusing all of its diabetes research in Scotland.

We also have the world's leading chemical company, BASF, based on the west coast of Lewis, which is perhaps not the obvious place for it or where one would expect to see such a company operating. It bought over a small business that we had supported for a number of years that produces a very high-quality omega-3 fatty acid. We own and are investing in the site there, which has enabled BASF currently to employ more than 70 people at much higher than the average wage; with the site investment, the number will grow to more than 90. The comparable impact in a city would be many thousands of jobs, so that is really significant for that part of the Western Isles.

Food and drink is clearly an important sector in the Highlands and Islands. I flag the aquaculture industry, which we are currently supporting. It has devised a new strategy to lead aquaculture through to 2030 and has developed a new industry leadership group. There are some great opportunities there to increase the productivity of

aquaculture and to support an indigenous supply chain in that sector.

In tourism, naturally there is a focus on the natural environment and our culture and heritage, but we see world-leading niche tourism businesses in areas such as adventure tourism and marine tourism, again building on the assets of our region.

Energy is critically important to us. We are delighted to see that the planned wind towers in Kintyre, which is an area that has had problems and challenges, have been taken over by the Korean company CS Wind, therefore investing and protecting employment in that fragile area. It is also great news that MeyGen is now generating electricity in the Pentland Firth from the world's first commercial-scale tidal array.

The creative industries are a vibrant sector in the Highlands and Islands. There, our focus is around music, fashion and textiles, which come together in the international showcase XpoNorth.

In business services, there is no financial services sector in the Highlands and Islands but we have developed a niche in business-process outsourcing, with a number of key companies operating there such as Cap Gemini, which now occupies HIE's former office in Inverness and is expanding there.

Our third operational priority is strengthening local communities, which brings together our social and economic remit. The work that we do on strengthening communities is central to HIE's inclusive growth approach. We support creative, capable and sustainable communities by helping them to own and manage income-generating assets to develop both services and employment locally. We use our account managed approach with communities, too, and have a relationship with around 50 communities and 115 community organisations to extend that reach.

Our fourth priority area is creating the conditions for a competitive region. The focus there is on some of our main infrastructure investments, the key one of which at the moment is delivery of the £146 million investment to roll out next-generation broadband in the Highlands and Islands. Without that programme, which is led by HIE in partnership with British Telecom and supported by both the Scottish and United Kingdom Governments, next-generation broadband would reach only a percentage in the low 20s of the population across the Highlands and Islands. When that programme is completed, towards spring next year, it will have reached 86 per cent of the population, making a significant difference. However, the work does not stop there; the key thing will be to realise the benefit of that investment with digital skills and digital businesses that are operating effectively.

Another example of infrastructure investment is the development of the Inverness campus, which is a flagship investment in the region's capital.

We are also extending the reach of higher education. Having finally got a university in the region, in the University of the Highlands and Islands, we have been a long-term supporter and are currently working with UHI on a new school of health project.

A number of other universities are operating in the Highlands and Islands. For example, the world-renowned Glasgow School of Art has opened a campus in Moray and it will be fantastic to see students having the opportunity to access Glasgow School of Art from the Highlands. We are also capitalising on the presence of Heriot-Watt University in Stromness in Orkney, alongside the European Marine Energy Centre, to focus on energy developments.

The Audit Scotland report "Supporting Scotland's Economic Growth", which we very much welcomed, stated that HIE is performing well, with a clear, well-evidenced strategy and a positive attitude to risk. Naturally, there were some recommendations, and we are actively addressing those which were specific to HIE. We welcome the opportunity to influence and shape positively the next steps of the enterprise and skills review as it moves into phase two.

Finally, we would welcome any member of the committee or the committee itself coming to the Highlands and Islands to see any of HIE's projects or work. We would be delighted to be your host.

**The Convener:** Thank you.

I should have noted that we have received apologies from Andy Wightman. We move to questions.

**Gordon MacDonald:** In their written evidence to the enterprise review, Mackay Consultants said:

"I believe that Scottish Enterprise and Highlands and Islands Enterprise have generally made very good use of their budgets, but that their contributions to Scotland's economic performance have declined recently, particularly that of HIE."

The evidence goes on to say:

"Indeed it could be argued that both SE and HIE have become too risk averse in recent years and that their failure rates could have been higher."

What are your views on that?

**Charlotte Wright:** I mentioned at the end of my remarks Audit Scotland's comment about a positive attitude to risk. It is critically important for an economic development agency to have the right approach to risk. I would not say that we are risk averse; we are certainly risk aware. We do take risk: we have had business failure and project

failure. We would fully agree that if we did not take risk, there would not be failures. Our approach to risk is to be clear at the outset what the risk is and to ensure that we put in place mitigation as we work through our process.

We certainly have some excellent examples of our having taken risk. Next-generation broadband implementation is one: working with a commercial partner to invest £146 million is challenging. At the end of the procurement process, we only had one bidder and it is a real challenge to ensure that we get both value for money and innovation from implementation in those circumstances. We have done a range of things across the Highlands and Islands in which risk has occasionally crystallised, and we have seen write-offs of investments in businesses and otherwise.

In infrastructure development, an example would be our £5 million investment in the £10 million project at Lochboisdale. The community asked us for £2 million of support for a £4 million development; we said no, and suggested a £10 million development, which we would support with £5 million. That was about pushing the risk and ambition.

I could give the committee a number of other examples.

**Gordon MacDonald:** One of the comments in another submission to the review was:

"My experience is that their funding is somewhat randomly distributed and only to larger organisations."

**Charlotte Wright:** I would refute that in relation to Highlands and Islands Enterprise. We work with a range of company sizes and I mentioned in my opening remarks that some of them are very small, employing fewer than five people. Although we have big companies, such as Lifescan, we work with a range of very small companies; some of our interventions are in the single thousands of pounds of support.

09:45

**Gordon MacDonald:** One of the points that you raised at the beginning was about depopulation of the Highlands and how that has been reversed. In economic development terms, is there still a lack of people and skills to grow sectors? Scotland's predominant economic hotspots are Aberdeen and Edinburgh. Where are the economic hotspots for HIE?

**Charlotte Wright:** On the first part of your question, I accept that there is a challenge. To attract skills, we developed a skills investment plan for the region jointly with Skills Development Scotland. We are leading on the talent attraction plan part of that for exactly that reason. Most businesses that we speak to will raise the

challenge of getting the right skills or people into the area. It is important to the Highlands and Islands to bring people and the right skills into the region, and those might not be the same as those needed in Scotland overall. We see that as really important.

I guess that the city of Inverness would stand out as an economic hotspot that has made a significant difference to the overall performance of the region. It has been the United Kingdom's fastest-growing city and we really see the benefit of that. Our job is to make sure that Inverness's success is pushed out and that we take an inclusive approach to ensure that we see that growth operating effectively across our region from Unst in Shetland to Campbeltown in Argyll.

**The Convener:** Do you think that people in the Highlands and Islands who are looking to go into business have a risk-averse attitude?

**Charlotte Wright:** That is a good question and it is something that we have seen. An indicator might be businesses that are accessing finance. We regularly undertake a panel survey with businesses across the Highlands and Islands and we revisit a few of the key questions with them, including questions on access to finance. We find that businesses are much more reluctant to borrow capital at the moment, even though banks are apparently willing to lend and other sources of finance are available. That is an area in which we can work really closely with businesses through account management. They need to continue to invest and to develop to continue growth.

**Richard Leonard (Central Scotland) (Lab):** This morning's exercise is part of our budget scrutiny and my question is to Forbes Duthie and Charlotte Wright. The last time that Charlotte Wright was at the committee, on 1 November, we had a discussion about funding as outlined in the Audit Scotland report. You said that you believe that there is a rebalancing between grant-in-aid funding and special project funding. As I look at last year's figures and this year's figures, I can see that there have been further declines in your grant-in-aid funding. Do you understand what the Scottish Government's policy is on that? Is it to move away from grant-in-aid funding and to look towards special project funding as a matter of policy?

**Charlotte Wright:** I am sure that Forbes Duthie will want to come in on that. In recent years, we have had the ability to increase our budget by specific ring-fenced amounts for certain projects. Wave Energy Scotland is a good example. Community broadband Scotland and the Scottish land fund, which we deliver on behalf of Scotland, have allowed us to increase the amount of resource that we are able to deploy overall.

**Forbes Duthie (Highlands and Islands Enterprise):** It is fair to say that our grant-in-aid has been a bit volatile in the past 10 years, and that has happened for a number of reasons. Some of it relates to available Government funding. We have been through reviews before—we used to have a quinquennial review of the role of the enterprise agencies and those reviews always resulted in some kind of movement. However, the important point is that because we have been living in that environment, we are, to a certain extent, able to flex the budget in relation to how we work with our customers and clients and, indeed, with the Scottish Government.

That is why you will see a much bigger element of Scottish Government funding for what you might call ring-fenced projects coming through now, because we actively go out and pursue specific projects that we know there is Scottish Government funding to support. You can see that through broadband and through the wave energy Scotland initiative as well, which are particularly important to the Highlands but also to the whole of Scotland, especially when we consider how wave energy might be developed and evolved.

Charlotte Wright also mentioned the fact that digital connectivity is of primary importance to ensuring that the Highlands and Islands are connected. As I always tend to say, technology eliminates distance. If you are in Papa Westray, for example, a good digital link can eliminate the problems posed by remoteness and provide scope for business, although you obviously need the rest of the infrastructure to develop that too. As outlined in a paper that we considered at our leadership team yesterday, we have spent £146 million on broadband and we are in the process of closing that project, which will get us up to 86 per cent coverage. It will take at least another £150 million to get us to 95 per cent coverage, and the incremental cost of going that final distance reminds us of the cost of reaching remote and rural communities.

It is good to have those ring-fenced projects, but it is also good to have a solid grant-in-aid base that we can build on, so that we can have discretion to invest where we need to for local priorities. As we look towards the budget, I hope that there is an element of grant-in-aid increase. Whether that will be achieved I do not know, but I am looking forward to finding out next week. I am not completely unrealistic, because I live in the real world and I know that there is scope for budget cuts, but we do not quite know yet.

**Richard Leonard:** I would like to interrogate a couple of the budget lines that appear in appendix 1 of the HIE submission. You say that the marginal cost of broadband investment will increase as you try to install it in the more difficult to reach areas,



but your budget for broadband investment went down between 2015-16 and 2016-17 from £30.9 million to £21.4 million.

**Forbes Duthie:** That is because it is coming to the end of phase 1. We do not have phase 2 funding yet. That is a project that we need to discuss with the Scottish Government. That is why we were considering that paper yesterday, because we are moving into phase 2, which is the final element of getting to the 86 per cent target. We do not have the funding for the next phase in any budget plan yet. That is why we are working with the Scottish Government to see what it can fund.

**Richard Leonard:** Do you have any early indications of what the budget for 2017-18 is going to be for broadband investment?

**Forbes Duthie:** There is talk about a £400 million allocation being available from the Scottish Government, but that is second-hand hearsay. We have not seen the budget papers that would suggest that it is there.

**Charlotte Wright:** That relates to the Government's commitment to 100 per cent coverage. We are completing the project that we had, which takes us to 86 per cent coverage. The Government will then decide what it wants to do to honour its 100 per cent commitment, and at this point we have yet to determine what HIE's role will be in that with the Government.

**Richard Leonard:** I have a couple of short questions on two of the budget lines, the first of which is about European funds. Between the budget and the outturn for 2015-16, as outlined in the appendix, there seems to be a considerable drop in expenditure derived from European funds. When I look at the 2016-17 original plan versus the full-year forecast, I see an even greater drop in European funding. Can you explain the reasons for that?

**Forbes Duthie:** The reason is quite simple. In fact, the current phase of the majority of European programmes is coming to an end, and we are putting funding forward for the next phase. The net effect is the tail-off that we have had, as the projects are now coming to fruition and coming to a close. That is why you see that drop-off.

**Richard Leonard:** You budgeted for £5 million and you are likely to spend £1 million. I presume that, when you made your budget, you had an idea of whether things were coming to an end.

**Forbes Duthie:** Yes, we did. We normally just have the £5 million line, because European funding can be quite volatile in terms of the projects that are coming forward. That is not always at our own hand, so we do not have control of when they begin. We therefore try to get in

European funding of £5 million but, if the projects are not out there from the private sector to develop that, it is hard to deliver it.

**Richard Leonard:** But there is no blockage in the system.

**Forbes Duthie:** There is no blockage in the system that is causing an artificial situation by slowing things down. The issue is genuinely that projects are not coming to fruition.

**Richard Leonard:** I have a final quick question. Looking at the investment line, I see that you are again forecasting investment expenditure to be down by about 20 per cent this year. Why do you think that is?

**Forbes Duthie:** That is the reality of the investment. That demonstrates the flexibility that we have available in the budget—the budget flexes. We start off with the operating plan, which is a three-year document, and that is the figure that you would initially see. We then go into the operating plan for a particular year. As you can see, there was a £3 million drop in grant in aid this year, so we had to reflect that. That is the way in which we move that forward. Some projects inevitably ebb and flow. For instance, the broadband project slips and slides. We have a very good project with Norbord at the Moray Firth, which is an £8 million project, and it is also moving. That means that our budget moves, and we can manage that in a positive or negative way depending on the resources that we have available at a particular time.

**Richard Leonard:** You talk about volatility and ebb and flow but, as I look at the figures, they are all going downwards, are they not? You started with the operating plan budget in 2015-16 of £27.3 million-worth of investment, and your outturn was £23.6 million. Your budget for this year was £21.3 million, and you are forecasting an outturn of £18.8 million. That is not volatility up and down—that is down, is it not?

**Forbes Duthie:** It is down, yes. That reflects the reduction that you see in European funding, as well. The European projects that we initially thought were there did not spend. European funding matches spend so, if the European funding is down by £2.5 million, the investment funds would be down by £2.5 million as well, because they are not matching off.

**Richard Leonard:** Thank you.

**Liam Kerr (North East Scotland) (Con):** Good morning. I have a couple of questions relating to the forthcoming budget. Charlotte Wright mentioned the Audit Scotland report on the enterprise agencies, which says:

"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 arrangements and clarify roles and responsibilities.”

What analysis is being done to rectify that? Presumably, there is a danger that the Scottish Government is unable to accurately assess the value add of HIE, which could have a negative impact on your budget going forward.

**Charlotte Wright:** In discussions with Audit Scotland, we have pushed back on some of those statements, as we do not recognise the remarks on the ability to establish our expenditure. That expenditure is clear and it is in all our operational documents. We also do not fully recognise the remarks about businesses finding it difficult, and we pushed back to Audit Scotland on that area. However, we certainly recognise that, if there is feedback from businesses that we need to articulate more clearly how they navigate their way through the business and enterprise skills system, it is important that we listen to that and ensure that that is as clearly articulated as possible. It is important to us that businesses and communities understand well what we do, why we do it and how we do it.

**Liam Kerr:** Does the Scottish Government understand your pushback? I presume that it is as important that the Scottish Government, when it is budgeting, understands that you have pushed back and made that clear.

**Charlotte Wright:** Yes, indeed. I think that the Scottish Government fully understands how we use our budget and what we are doing with it. We have a close relationship with our sponsor team on that.

**Liam Kerr:** The Audit Scotland report says:

“Despite the enterprise bodies’ budget reductions since 2008/09, there has been little change in the Scottish Government’s expectations”.

Audit Scotland goes on to say that that “creates a risk” that your resources are being spread too thinly. What was your response to that, and what impact does your answer have on your requirements from this year’s budget?

10:00

**Charlotte Wright:** The expectation of what we can achieve is always increasing, and we hold that ambition internally as well. It is important that we continue to wring every ounce of value out of every penny we spend, and we see it as our job to do that. I guess that that becomes tougher when we have had pressure on budgets and, indeed, when we have seen some of the challenges and opportunities that face our business communities that we want to be able to respond to and lead on. It is a question for us of choices and prioritisation and how we manage that.

Of course, we would love to see an increased budget settlement next week, because we could well use any additional resources and we have a list of ambitious projects and support to businesses that we would like to implement, as Forbes Duthie mentioned. In reality, I think that we would find a settlement that is at least the same as this year’s to be a good outcome.

**Liam Kerr:** Thank you.

**Gillian Martin (Aberdeenshire East) (SNP):** I would like to move on to your relationship with the University of the Highlands and Islands. You have said that you are working with the university to increase innovation, with your account managed companies. Can you give me some detail on that and what those projects are?

**Charlotte Wright:** The growth of the University of the Highlands and Islands has gone hand in hand with that of HIE and that of the region overall. For example, a project that we are working on at the moment is a health and wellbeing pilot that has come out of the work of the Scotland CAN DO forum on innovation. That is offering interesting opportunities for businesses in the digital health space to work together with the national health service and the universities. That is a key focus for us in the Highlands. We can see the opportunity to deliver healthcare to remote and rural areas and the role that some small businesses with innovative approaches to digital health are able to play in that space. It hits that agenda overall.

The university provides a range of support to business and is very keen to respond to us. For example, I mentioned earlier the work that the aquaculture sector is doing on setting out its strategy through to 2030. We have talked to UHI about the opportunities to deliver into some of the skills gaps that have been recognised by that industry, for example in fish husbandry.

**Gillian Martin:** Obviously, one of the issues for rural areas is having the labour force to plug the skills gaps. What are you doing with the university on that? You have huge potential in your area, for example in tidal energy, which you mentioned. There are some massive projects happening there, but they are largely driven by companies from outwith Scotland that are investing in our natural resources. What are you doing to increase innovation in that area and to plug the skills gaps in order to drive that industry forward?

**Charlotte Wright:** I mentioned EMEC in Orkney. Heriot-Watt University has been in Orkney for a number of years and it is developing a campus in Stromness that will bring together its academic expertise and research and development capability, and the piloting and deployment of marine and tidal devices at EMEC’s

test facilities. That is a real living laboratory out in the sea, off the coast of Orkney, that is fulfilling that approach. That is cutting-edge innovation: EMEC is the world's only grid-connected tidal test station and it is something that we have a great opportunity to grow.

EMEC is also exploring the development of hydrogen capture and storage. It leads the way on that globally and is inundated by visitors from all over the world who want to learn from what is being done there.

On skills gaps generally, we are working with universities, colleges, Skills Development Scotland and business directly. I highlight the gap in digital skills. That is not unique to the Highlands and Islands. It is a challenge in the 21st century to ensure that all our businesses can operate digitally, which would mean that anybody could work from remote and rural areas of the Highlands and Islands and link and sell to the world. However, first, we need to have not only the capability and capacity of next-generation broadband but the skills.

We are also working on a project for a science skills academy, which is part of the Inverness city deal. We see fantastic potential for that, particularly in reaching out to young people. Through the summer, that project ran a number of coding clubs and similar events that help to build the next generation's interest in what we can do with digital skills. Those events took place in the building that we occupy in the Inverness campus. It has been fantastic to see a huge amount of enthusiasm from young people there.

We also have a digital marketing suite in our building. We have had more than 1,500 businesses through that hello digital facility, as we call it. It has been able to demonstrate to businesses and the wider public technology such as virtual reality and the use of drones. We have held a number of events that excite people's interests in the opportunities in that arena.

**Gillian Martin:** You mentioned retaining talent in the area. Having the university helps you to do that, as it means that people do not leave to go to other universities, which is a big part of the issue. As you mentioned, the population is low compared with that of other parts of Scotland. What impact has Brexit had on the availability of the labour force to staff and manage all the fantastic opportunities that you are developing in the Highlands and Islands?

**Charlotte Wright:** When we talk to businesses, we hear a concern about the impact of Brexit on, in particular, European Union nationals who work in sectors that are highly reliant on such individuals, particularly the tourism and food and drink sectors. Many of the businesses in those

industries rely on that manpower. That has been the history of food and drink and tourism throughout the Highlands and Islands. Although those sectors rely predominantly on European migrants at the moment, in the past the workforce has been from all around the world—Australia, New Zealand and other places have helped to support some of those key industries. We are working with businesses to reassure them about the situation in the short term.

One aspect of dealing with our population challenges is ensuring that we continue to create opportunities for our own young people who want to live, work and study in the Highlands and Islands. We undertake a youth survey. We have done that twice now, with a five-year gap in between, and the most recent one showed a marked positive difference in the attitudes of young people in the Highlands and Islands to living and working in the region. They have a massive sense of pride in belonging to the Highlands and Islands and commitment to the region. Specifically, they are much more optimistic about the opportunities to study and to take up employment in the Highlands and Islands. That was great news to us and we need to capitalise on it by continuing to work on opportunities in further and higher education and on employment prospects.

There is a wider economic context because there are other elements that are equally important if that is all to work properly. For example, as part of the HIE board work, we and our board met a group of 50 businesspeople in Aviemore for a business breakfast. The key things in the economy that they are concerned about and that came out of that discussion were housing, roads and connectivity. That whole package is important to young people as well.

**John Mason (Glasgow Shettleston) (SNP):** You mentioned how good it is to have high-quality jobs on the west coast of Lewis, which are with an overseas business owner. How do you balance having any job—I do not know whether there is such a thing as a bad job—with having a good job? Does ownership matter and is community ownership important? What are you doing about that?

**Charlotte Wright:** It is fantastic to have businesses that can offer significant wage rates and, in particular, opportunities that maximise the use of skills. BASF on the west coast of Lewis, which I mentioned, is a great example of that. However, BASF is there because a local entrepreneur started off using the skills that he and a small group of people had, and the high-profile omega 3 fatty acids that they worked on went on to become a target for investment for BASF. BASF is now looking to provide 90 jobs on

the west coast of Lewis because of our long-term investment in a small indigenous company that went on to grow. We would not have achieved that significant growth without the further investment that came from an international company.

Such examples are few and far between in the Highlands. The meat and drink—if that is not a pun—of our food and drink industry is the small indigenous companies that grow and add two or four people to their overall employee numbers. They can make a significant difference, particularly in our rural areas.

As for good and bad jobs, ensuring that we have employment is the most important thing. It is also really important for us to influence—where we can—what employers do on wage rates.

You also mentioned community ownership. We have worked on the community ownership of land and assets and we have a fantastic track record. Many of those arrangements create important jobs in communities to support the management, ownership and development of the assets, and some such communities are very successful at what they do.

**John Mason:** Do you have a particular angle on who should own a project or business, or is that just about what is appropriate for a particular business? Do you encourage women to set up, own and run businesses?

**Charlotte Wright:** You are absolutely right that ownership is about what is appropriate, which might change over time, as in my example of BASF on the west coast of Lewis—that operation went from being a small business that was run by an entrepreneur to being part of a multinational company. We must ensure that we can support the growth of a business, which might go through changes as part of its life cycle.

We are working really hard to support women in businesses and to influence that through our work on equality and with Women's Enterprise Scotland. To be fair, there is still a long journey before we will see the improvement that we would like. On women's standing and the numbers of women in management, there is a difference between the world of social enterprise and that of business—we provided figures that set that out.

**John Mason:** You have stressed the role of social development and strengthening communities, which is unique to HIE when compared with Scottish Enterprise. A cynic might ask why we need to strengthen communities in the Highlands but forget about those in Fife or somewhere else. How would you answer that and what difference are you making?

10:15

**Charlotte Wright:** HIDB and then HIE were set up to deal with the specific challenges of the Highlands and Islands. Although other parts of Scotland are rural, the Highlands and Islands are unique because of their geography, including their islands and mainland populations on remote peninsulas.

For many of those communities, the opportunity to own their own assets and to have support in those communities is integral to their economic development. Those aspects go critically hand in hand. The creation of small job opportunities is an investment in those communities. Communities work to retain and develop local services, such as social care or the one shop on an island, which are also important to the fabric of life. If people do not have those community facilities, they have difficulty in leading full and sustaining lives.

**John Mason:** I am also on the Rural Economy and Connectivity Committee, which has been looking at crofting. We understand that, some time ago, responsibility for developing crofts was switched to HIE. There is some feeling that it should go back to the Crofting Commission, because HIE has not created many crofts. Surely crofts are part of developing a community.

**Charlotte Wright:** Our role in crofting is quite narrow—it relates specifically to development of the crofting township. We are working in territories where there is community land ownership to encourage people there to look at new croft entrants, which we have seen in communities that own the land, or at new farms, where that is appropriate.

**John Mason:** My final question is linked to evidence that we heard at the Rural Economy and Connectivity Committee last week from representatives of community broadband Scotland. They seemed to have some satisfaction if a village got connected—presumably through fibre—but they did not seem to be too worried if the richer people in the village could afford broadband and the poorer people could not. Does that issue come under HIE's remit?

**Charlotte Wright:** I talked about our roll-out of the broadband contract, and I suppose that such an issue relates to the work that we do with BT.

In the work of community broadband Scotland, some of the solutions will be unique and bespoke, and there can be challenges in how they are delivered overall. The aim is to be as inclusive and equal as possible. I would have to ask CBS exactly what was meant by the feedback that you were given.

**John Mason:** You use the word “inclusive”. Is it part of your vision that everybody should be able to connect?

**Charlotte Wright:** Yes. The Scottish Government’s commitment is to a 100 per cent target.

**John Mason:** Does the 100 per cent target mean that broadband is just in the village or that every person in the village is connected?

**Charlotte Wright:** It is for everyone. Let me make sure that I am clarifying the issue. What we are now doing will take us to 86 per cent; that will be the end of that programme. The Scottish Government has made a commitment to around 100 per cent, and it is working on that at the moment. We have yet to determine what HIE’s or CBS’s role will be in addressing the final 14 per cent.

**John Mason:** I do not want to be pedantic, but does 86 per cent mean that 86 per cent of people are actually connected in their houses, or does it just mean that there is a cabinet nearby?

**Charlotte Wright:** It means 86 per cent of the population—

**John Mason:** —are actually connected?

**Charlotte Wright:** That is right.

**John Mason:** Thank you.

**Dean Lockhart (Mid Scotland and Fife) (Con):** When you previously appeared before the committee, phase 1 of the skills and enterprise review had just been announced. You said that you welcomed

“the opportunity to have strategic oversight across our agencies ... but we have yet to see exactly what that will mean for the boards of individual agencies.”—[*Official Report, Economy, Jobs and Fair Work Committee*, 1 November 2016; c 2.]

Since then, the Scottish Government has said that a strategic board will replace individual agency boards, although each agency will retain its individual legal status.

What is your understanding of how that might work? What issues might there be with the individual boards of agencies such as HIE, which have very different remits, being replaced by one overarching board?

**Charlotte Wright:** We are still waiting to hear more detail from the Scottish Government about the implementation of phase 2. We welcome the fact that phase 2 will be done in a different way from phase 1 and that it will include much more input from the agencies that were part of that review. That will provide an opportunity to influence and shape what happens.

There has been a fairly strong reaction across the Highlands and Islands to the suggestion that there would no longer be a Highlands and Islands Enterprise board as we understand it. What is critical is that we articulate the beneficial input that the HIE board has made over the past 50 years—going back to the Highlands and Islands Development Board—in the region’s progress and that we ensure that whatever arrangements are put in place, which I presume will include arrangements below the statutory board, will allow us to retain the essential ingredients that have contributed proactively and positively to the region’s progress.

**Dean Lockhart:** What are the principal distinctive features of the HIE board, compared with other agencies’ boards?

**Charlotte Wright:** I can speak only about how the HIE board operates, because I do not have detailed knowledge of how the others operate. The members of the executive of HIE have found that the HIE board has been beneficial to us through its role in helping us to prioritise where we implement strategy across the Highlands and Islands. The knowledge and expertise of the board members, based on the walks of life from which they come, is useful, as is their insight into the Highlands and Islands.

We ensure that the board members spend a fair amount of their time meeting and engaging with businesses and communities in the Highlands and Islands so that they are part of the visible face of HIE. That is recognised and appreciated by the communities that we work with; they have an opportunity to talk to and influence the HIE board, which ensures that we recognise the challenges and opportunities that those communities face.

**Dean Lockhart:** Your paper highlights opportunities in tourism, food and drink and other areas. Can you talk us through the steps that HIE is taking to explore the impact of Brexit and the opportunities that might arise from that and to help the companies that you assist to capture those opportunities?

**Charlotte Wright:** All the indications are that this has been an extremely good year for tourism. That relates to a couple of things that involve Brexit: visitors from overseas have viewed us as a more attractive location because of how far their money will go, and more people have chosen to holiday near home rather than going away. We work with tourism businesses, many of which have felt challenged to cope with providing capacity—for example, there are challenges in ensuring that ferries have the capacity to get everyone to the islands so that those communities can enjoy the boom. We have done a fair bit of work with tourism businesses. We are ensuring that they are fully

utilising their digital capabilities for marketing and transactions.

The food and drink sector is benefiting from the export potential. In the short term, we are working alongside Scottish Development International to maximise that opportunity, but we are also taking a longer-term view of which markets outside the EU could be targeted in the future, and we are working on strategies to maximise such opportunities.

Earlier, we spoke about the potential impact on the workforce and the need to ensure that businesses have in place strategies for developing and maintaining their workforces. That is critical.

**Gil Paterson (Clydebank and Milngavie) (SNP):** How many more new exporters does your area have compared with last year? How does the HIE budget help to support increased exports?

**Charlotte Wright:** A further 20 per cent of our account managed businesses are looking at exporting for the first time. It is really important that that number grows.

We operate the international Highlands and Islands programme to bring as many new exporters into the internationalisation agenda as we can, but that process can be quite slow. It can take up to five years from the first time that a business considers exporting until it is fully transacting internationally. We need to work through a series of supports to ensure that the right choices are made on markets, products and capability, so that people can maximise the opportunities.

**Gil Paterson:** You have mentioned one company—I take it that the BASF product is an export.

**Charlotte Wright:** It is—it is almost entirely for the Japanese market, where there is a strong interest in omega 3 fatty acids. It is amazing for the part of the Western Isles that is involved that a substantial, high-value product is going entirely into an overseas market in Japan.

**Gil Paterson:** Can you make any general comments on new companies that are exporting?

**Charlotte Wright:** On new opportunities?

**Gil Paterson:** Ones that have happened since last year.

**Charlotte Wright:** Let me think of some examples. There has been a lot of growth recently in microdistilleries and microbreweries, and there is a range of exciting developments. Last week, I was on the Isle of Harris. The Isle of Harris distillery has made significant investment near Tarbert. Its whisky is not ready yet, but its gin is. That is a great product, and the distillery is seeing fantastic traction with it overseas. Although its

whisky is not ready, it has already pre-sold quite a lot of barrels into the second phase. The whisky is not even barrelled yet, but the first phase is fully sold out.

There has been a huge growth in microbreweries for new markets. Black Isle brewery, for example, has been reaching out to the US and other markets. There are really great opportunities out there.

**Gil Paterson:** It is funny that you should talk about the alcohol industry, as I am a lifelong teetotaler. However, I support the industry quite considerably.

I think that John Mason touched on the subject of my next question. What emphasis and importance do you put on the prospect of exporting, as against companies that might have no opportunity to export or no interest in exporting but which might be important to sustaining a community or helping it to grow? Do you have a judgment to make there? Is there such an emphasis?

**Charlotte Wright:** If a business is able to expand its market naturally, but the market is only the Highlands and Islands or Scotland, that is immediately limited. Any business that has significant growth aspirations will need to look at how it develops its market. The rest of the UK might be a great place for a business to start to go on that journey but, as I said, we need to work out a really clear strategy with the business so that it makes the right decisions.

It might be useful to give the flipside of that. I mentioned aquaculture. We have worked through with that industry's leadership the opportunity in the supply chain in aquaculture. As you are probably aware, the leading producers in aquaculture are mostly Norwegian, and a lot of the supply chain is Norwegian. There are great opportunities for indigenous businesses to fill some of that supply chain. The flipside of what we are doing on exporting involves seeing our opportunities in import substitution as great opportunities for our strong indigenous companies. In my aquaculture example, they would still ultimately support increasing productivity and value from a sector that is important to us, but they would bring a more local supply chain into play.

10:30

**Gil Paterson:** I suppose that my question should have been more pointed. Would you put more emphasis on an exporter than you would on a company that was not exporting but which was delivering in a community and needed to be sustained or helped to grow?

**Charlotte Wright:** I am sorry—I did not understand what you were getting at. The answer is no. We want to increase exports overall, but business growth is the critical thing for us. We are looking at opportunities, particularly for our remote and rural areas. If a business has the opportunity to grow and that growth potential is based on markets in the Highlands and Islands or in Scotland, that is absolutely important to us.

**Gil Paterson:** That is good.

**Jackie Baillie (Dumbarton) (Lab):** I would like to follow up on exports. You have talked about your ambition and aspiration. How many account managed companies in your portfolio export? How many do you expect to export next year? Have you set an internal target for that? How much budget do you devote to it as a percentage of your total budget? Are there constraints within your budget that will prevent you from realising your ambition?

**Charlotte Wright:** I might not be able to give you detailed figures on all those areas. I will come back to you on anything that I cannot answer off the top of my head.

**Jackie Baillie:** That would be helpful.

**Charlotte Wright:** Our account managed portfolio comprises 401 businesses—the figure is 455 if social enterprises are included—57 per cent of which export. A further 20 per cent are starting that process, so there is a growth trajectory.

As far as growth for next year is concerned, a lot of that will be to do with realising the ambition of the 20 per cent of businesses that are starting the export journey, although we will continue to grow the top of that funnel so that more businesses that are interested in exporting can come into the process and start working their way through it. As I said, it can take a number of years from thinking about exporting to actually doing it.

What was the second part of your question about?

**Jackie Baillie:** It was about the budget, but I would like to tease out what you have just said. Is growing exporting by the 20 per cent of companies that you have identified your target for next year? You said that the process takes longer. Do you have a target for next year?

**Charlotte Wright:** In the top-line measures on which we report to Government, we set that out in terms of value—the value of company turnover that goes to international sales. That is the key target.

However, beneath that is something else that is quite important. While a value target is critical to the performance of the economy overall, there are always a number of big companies that will

contribute significantly to that target, so it is equally important that we continue to ensure that we broaden the base of exporting companies overall, even if some of them start the exporting journey fairly slowly and at fairly low levels of value. Increasing both the volume and the value is part of what we want to achieve.

When it comes to resourcing, we do not chunk our budget up in that way—we look at the support that we provide to business overall—but if there are some figures that we can extract for you, we will pass them on.

**Jackie Baillie:** That would be very helpful.

I turn to productivity, which I think we would all agree is key to economic growth. The national performance target is that Scotland should be in the top quartile of Organisation for Economic Co-operation and Development countries for productivity by 2017. There are weeks to go to the commencement of 2017, and we are 19th—well off target—in the third quartile. What contribution did HIE make to increasing levels of productivity last year? What are you going to do next year? Will it be more of the same, or will there be a step change? How does the budget relate to that?

**Charlotte Wright:** The proxy for productivity is GVA, and we can certainly give you the number on our GVA. The reality is that productivity in the Highlands and Islands lags behind Scotland, which lags behind the UK, so that is definitely a challenge for us.

Some of it is structural—it is about the size of the business base. Again, whatever is writ for Scotland is writ larger for the Highlands and Islands. In this case, there tend to be many more microbusinesses, in terms of the size of businesses in the business base.

I have referenced some of the businesses, such as Lifescan Scotland and BASF, that make up the sectors in the Highlands and Islands. However, the structure in the food and drink and tourism sectors means that the companies tend to be at the lower level for wage rates, and therefore they make a lesser overall contribution in productivity terms.

We have to make sure that we support developments that target sectors where the skill level and the pay rate are higher. We are looking at investing in productivity in companies. We use services such as the Scottish manufacturing advisory service to increase efficiency. We have seen productivity increases with CS Wind UK's investment in wind towers in Kintyre, which I have spoken about. The company has identified efficiency improvements. That was part of its target when it took over the factory—it recognised that the factory had not been running as efficiently as it could. We are moving that forward.

I do not underestimate the challenge in significantly closing the productivity gap. This takes us back to our discussion on skills, but our review of productivity is also about the productivity of the individual. In the Highlands and Islands, we have an underemployment challenge, and making sure both that people are as productive as they can be and that their skills and capabilities are fully utilised are equally essential, not only for productivity but for the wellbeing and effectiveness of our communities and businesses.

**Jackie Baillie:** I turn to gender, which is a theme that the deputy convener started. Do you undertake a gender impact analysis of your budget? If you do, can the committee have sight of it during the budget process? That would be useful. How much do you allocate to encouraging women's enterprise directly, as a percentage of your budget? I appreciate that you might not count it in that way, but information about any exercise that you have carried out that would help to draw that out would be appreciated.

**Charlotte Wright:** We can certainly undertake an exercise to get those figures for you. We ensure that any programme that we develop includes an equality assessment—for example, we did that with innovate your business, which is an innovation programme. We look at the assessment—all our account managers are trained in equality assessment—and make sure those issues are at front of the minds of the people we put before businesses to talk to and advise them. That allows us to support those businesses in making the right decisions about how they can grow and take full advantage of all the fantastic talent that is out there.

**Jackie Baillie:** I have a point of information. When you made your opening statement, you indicated that there was no MSP on the committee who covers the HIE region. If you look closely, you will see that my constituency stretches from Arrochar and Succoth to the Rest and Be Thankful. Therefore, a tiny bit of my constituency is within the HIE region.

**Charlotte Wright:** Oh, I am sorry—that is a terrible error to make. I apologise.

**Jackie Baillie:** That is all right.

**The Convener:** It is difficult for everyone to keep track of the boundaries and how they change from time to time.

**Charlotte Wright:** I will make sure that Jackie Baillie is on the list for our Highlands and Islands MSP briefings.

**The Convener:** Excellent. We move on to a question from Ash Denham.

**Ash Denham (Edinburgh Eastern) (SNP):** I am interested in the account management

process. You said that your ambition is to support businesses' growth aspirations and that you choose the businesses that you put into account management based on their growth potential. How do you judge the success of the process? Do you set targets? You have talked quite a bit about employee numbers. Do you set targets for those so that you will be able to judge progress over a year or two years, for example?

**Charlotte Wright:** We track our measures on job creation and turnover, including international turnover. We also undertake periodic whole evaluations of account management. We have done a full evaluation reasonably recently, so I will make sure that you have a copy of that, if that would be helpful.

**Ash Denham:** Obviously, success can be judged on the value of exports or the number of companies that export. You said in response to Jackie Baillie that 57 per cent of the companies that you account manage export. Are you able to tell us the percentage last year and the year before to see whether the trajectory is upwards?

**Charlotte Wright:** Yes, we can certainly do that.

**Ash Denham:** Are you able to tell us whether the number of employees has gone up, too?

**Charlotte Wright:** We track the projects that we support that create jobs, and as far as those investments are concerned, we can see what jobs have been added. Moreover, we track what employment there is with the businesses that we work with.

The only challenge in that respect is that the account management portfolio is dynamic, with people coming in and going out. Because we are not working with the same groups, there is a challenge in tracking that information. However, we will see whether there is anything specific on which we can provide you with more detail.

**Ash Denham:** I am not quite sure how to phrase this, but is there any sort of push to get the businesses that you account manage to take up the Scottish Government's business pledge? Is that something that you encourage them to do?

**Charlotte Wright:** Again, account managers will promote to account managed businesses the benefits of working to the Scottish business pledge.

**Ash Denham:** Are you able to say what percentage of them have signed up to it?

**Charlotte Wright:** I think that the overall number for the Highlands and Islands is 24, 17 of which are account managed.

**Ash Denham:** Thank you.



**The Convener:** I thank both of our guests for their evidence. We will have a brief break to allow them to leave and our next guests to take their positions.

10:41

*Meeting suspended.*

10:47

*On resuming—*

**The Convener:** I welcome to the committee Dr Lena Wilson and Iain Scott, chief executive officer and chief financial officer, respectively, of Scottish Enterprise. We will start with a question from Ash Denham—*[Interruption.]* I am sorry—again. *[Laughter.]* I believe that Dr Wilson has an opening statement.

**Dr Lena Wilson (Scottish Enterprise):** Thank you, convener; I will be very brief. Good morning and thank you for having us. It is nice to be in front of fresh faces on a new committee. I always look forward to being at committee.

I do not need to tell members that we are in very challenging times. I welcome the opportunity not only to present what Scottish Enterprise is up to. Even although I have been in economic development for a long time, Scottish Enterprise is certainly not the font of all knowledge, so I look forward to discussing with the committee its ideas on what we could do that we are not yet doing to support growth.

We are in a very challenging global economic climate. Economic growth in the USA—which is Scotland's largest market—continues to be robust, but we all know that there are uncertainties around that for the future. China continues to grow, albeit at a slower pace, but we would take that growth, wouldn't we? However, there are moves in China towards a more domestic agenda and building up domestic companies, which is also an issue. We are still feeling the impacts of what has happened in oil and gas, but all the data tell us that we have reached the bottom of that and that there is now very good efficiency around the new "normal" of \$50 a barrel.

Uncertainty around our relationship with the European Union means that trading conditions for Scottish businesses continue to be very tough—although there are two sides to the coin, if we consider where sterling is at the moment. There is increased international competitiveness in our exports, but there are also increased costs for imported goods and services. Our job day and daily is to be mindful of all that, to be as fleet of foot as possible in reacting to it, and to ensure that companies that we support have all that at the front of their minds so that they can react.

We still have the role that we have been given by the Government, which is to find and focus on the best opportunities for growth. I have been saying to all SE staff recently that, regardless of where we are in the current global turmoil, we are paid to find opportunity and must do so in any circumstances.

We have worked very hard in recent years to drive much greater returns for the investment that we make on behalf of taxpayers. Members will know that our budgets have gone up and down since 2008, but there has been, approximately, a 16 per cent reduction in real terms. However, in that same time frame we have increased our international footprint around the world by a third, and we have seen the number of high-value jobs that we have brought to Scotland increase by 32 per cent. The companies with which we work most closely have continued to grow; turnover in our account-managed companies has increased by 20 per cent since 2010 and is now up to £3.6 billion.

The new investment that we have secured for growing Scottish companies through our co-investment funds has increased threefold and our export support has nearly doubled: in 2011-12 we were supporting 1,300 companies to export, and that has gone up to 2,600. I caught the tail end of one of the questions to HIE, which I can respond to in relation to Scottish Enterprise: 70 per cent of our account-managed companies now export. The figure was 60 per cent about 18 months ago, and we are hoping for 80 per cent next year, such is the importance of internationalisation for companies' competitiveness.

We have also driven a range of new services in innovation support and we provide many small grants to get companies working on new markets, because too few of our companies are innovating with new products and services. After the financial crisis, we earmarked a lot of our people resource for financial readiness to help companies to understand how to get finance and what would help them to grow. We have developed a high-growth-market unit that provides tailored support for markets including China and India, and we have launched a workplace innovation approach to stimulate excellent employment practices, which do not always have to cost much. Innovation is not about just products and services; it is also about how companies deal with their people.

In the next three years, we want to go further still in responding to the enterprise and skills review, and we want to use technology more to transform our model. One question for us is how we can make sure that all the assets that Scottish Enterprise has in terms of our knowledge and expertise can go as far as possible to as many businesses as possible—not just to those that Scottish Enterprise supports.

Another question is how we can give even more support to local and regional economies. Local authorities tell us that they value our input, and we work with every community planning partnership in Scotland. As a national agency, it has sometimes been difficult for us to meet all their demands for input and support, so the question is how can we do that digitally. We want to invest in a new system to join up all our efforts in Scotland internationally. There is lots of activity internationally in Scotland, but the whole is not always greater than the sum of the parts, so we are working with VisitScotland to join that up.

I think that the committee will want to discuss new activities that are targeted at inclusive growth, which was a new approach last year for the enterprise agencies. For example, there is a new leadership programme that is targeted specifically at women in account-managed companies and at delivery of productivity plans for high-employment but low-paid sectors including tourism, food and drink and construction. The food and drink sector can be very important for rural areas.

We are therefore facing up to new challenges, but we have faced up to lots of new challenges before. I will ensure that we focus relentlessly on the actions that will deliver impact for Scotland. There are lots of things that people would like Scottish Enterprise to do and there are lots of things that we could do, but our job is to do the things that give the greatest return to the economy. That is the role that the Government has asked us to fulfil and it is my role as accountable officer.

Thank you for the opportunity to make some brief remarks. I hope that they have set the scene, and I look forward to questions and discussion.

**The Convener:** Thank you. We will have Ash Denham now.

**Ash Denham:** Thank you for answering some of my questions in your opening statement. I am quite interested in account management by Scottish Enterprise, just as I was for Highlands and Islands Enterprise. You have said that turnover is up by roughly 20 per cent in the past six years, that the number of companies that are exporting is up, and that 70 per cent of your account-managed businesses are exporters. Do you have any figures on the number of employees? Has the number of employees also increased over the past five years or so?

**Dr Wilson:** Yes, I think that the companies have created about 7,000 jobs. I cannot remember whether that is in the past three years or in some other timescale; I will get back to you on that.

Employment growth is a big factor. I always tell companies that our job is to help them to make more money and/or to save more money—

preferably, both. Increasing top-line growth and improving efficiency generally help them to create more employment, but the quality of the employment is important, as well. We are now working with all of our account-managed companies, over 1,000 of which meet the requirements of the business pledge, although only one hundred and something have signed up to it. Sometimes companies do not want to sign up to something official—but companies are doing it anyway. We want to have discussions around gender and equality, because that helps growth. It is not a question of either/or. It all helps growth.

**Ash Denham:** Yesterday, Gordon Lindhurst and I went to visit a tech incubator in Edinburgh. The UK and Scotland are not improving in terms of productivity as much as we would like them to and productivity is a key driver for levels of growth and for improving the economy, so new tech companies could be quite significant.

We were told that very new technical companies are looking to be “disruptive”—that is how they were described to us by the person who was showing us round. They are literally doing something that has not been done before. They are not improving things or making things more efficient; they are just doing a completely new thing. He mentioned Scottish Enterprise and account management and said that the old rules for starting, managing and growing businesses do not apply to that type of new company. Are you focusing on such companies or sticking to the more traditional companies. Are we looking for the next Skyscanner? What are we doing in that space?

**Dr Wilson:** I believe that Scotland has the capability to have many more unicorns—companies that value at £1 billion over five years—as we have seen with Skyscanner and with FanDuel, in which we were a major investor. We were not an early investor in Skyscanner, but we helped it enormously along the way, including brokering an introduction to its new partner in China. Our most prominent account-management support and investment support are in the tech sector, at the moment. I argue that economic development is about taking risks and working with companies pre-revenue, and before they have even formed. The school of informatics at the University of Edinburgh is the twelfth-highest ranking school of informatics out of 800 in the world. It is a jewel in our crown, so why would we not exploit it?

We have put more resources into California, because I truly believe that we could get born-global companies coming to Scotland. Just two weeks ago in London, I met representatives of a company from Boston that we are trying to persuade to start up in Scotland in the tech space

because we have better software engineers who are very productive, do not move around much and are more cost effective. We are doing a lot in that space. Most of our venture capital goes into tech companies. The supply of graduates is very important to that, as are risk capital and the mindset for understanding the disrupters. Scotland has a terrific asset: I argue that data and technology could be our next industrial revolution in Scotland, so I am willing to lead from the front on that.

**Ash Denham:** The challenge, which was mentioned yesterday, is skills shortages and the ability to recruit from other European Union countries and elsewhere in the world. Is that a concern for tech companies? Will they be able to get the right people, in the light of Brexit?

**Dr Wilson:** Scottish Enterprise has a resource called TalentScotland, which is working with companies to help them to identify talent around the world. I am particularly worried about the challenges around attracting talent and barriers to that. We have an excellent record on attracting talent to our universities and on our university graduates from overseas staying in Scotland, and we have a great offer in terms of quality of life. Avaloq, which is one of the leading companies in the world for software development for the financial services sector, came to Edinburgh—which was competing with the Philippines and Brazil—on the back of no financial assistance at all and purely on the back of our talent.

11:00

**The Convener:** During our visit, our risk-averse culture and people's unwillingness to risk starting a business and failing were mentioned. From what we were told, failure is part of the learning process. Do you agree that there is a risk-averse culture in Scotland? If so, what are you doing to address it?

**Dr Wilson:** The risk aversion is changing as we hear more business start-up stories and see more role models who have started businesses. People who live in California are used to words such as "pivot", which is used when a business starts and gets investment to do one thing, then realises that that market is not right but does not give up and instead does another thing. The situation is changing, as we get more used to that and more used to not seeing it as failure.

We are in the risk business—economic development is not a dead cert. We should only do stuff that would not happen without us. We had £19 million of write-offs, which has been criticised, but that is risk. By the same token, we had £30 million or so of gains. What we do is inherently risky. As a country, we have really tried to get

behind wave technology, because the market was not ready to do it. I will be very open and transparent, and say that it does not always work and a lot of the pre-revenue investment that we make is inherently risky.

Not everything that we do will work, but we need to talk about that and understand it and be a country that fails fast. We do not want to be cavalier with taxpayers' money—I would not be sitting here today if I were found to be cavalier—but it is an issue. The young people whom we bring into Scottish Enterprise—we have an apprentice programme and I want at least 5 per cent of our workforce to be under the age of 25—are much more technologically aware and are very fleet of foot. They teach us a lot, and they just understand technology a bit better. That is a really important issue.

**Gordon MacDonald:** I have a quick question on the back of Ash Denham's question. Dr Wilson has mentioned a number of times the importance of tech companies, but one of the written submissions to the enterprise review said:

"I ... think SE has never really embraced micro firms and their needs. So many schemes are all about leading cutting edge technology ... and in my mind that is muddled thinking ... If you concentrated on making companies incrementally better at what they do then you would see a real improvement in our competitiveness and export success."

Do you see it as being your role to support companies that are doing well but that need support in order to increase growth, employment opportunities and exports?

**Dr Wilson:** I often get involved in that debate. The role of Scottish Enterprise, which has been given to us by Government, is about transformative growth. In the previous review, the role of supporting microenterprises was given to the business gateway. It is the role of local authorities through the business gateway to support microenterprises. Our role is to work closely with the business gateway to ensure that there is a pipeline of support when there is growth potential in a microenterprise. That is increasing all the time. We invest quite a lot in pre-revenue companies that we think have market potential and product potential. We have a dedicated high-growth support team that looks at pre-revenue companies and at companies that have not even formed yet. A lot of that is in the tech space, because that is where the world is going, but we support a massive amount of food and drink, tourism, construction and textiles companies, because Scotland has such a great offering in those, too. It is not an either/or, but it is important to say that the role of supporting microbusinesses is not the role of Scottish Enterprise; it is the role of the business gateway.

**The Convener:** I believe that Dean Lockhart has a follow-up question.

**Dean Lockhart:** Good morning. Phase 1 of the enterprise and skills review found a cluttered landscape of enterprise support and confusion over sources of finance. The Government has recently announced a £500 million Scottish growth scheme that will take the form of guarantees and loans, but there seems to be a bit of confusion in the community about how that will operate. Have any guidelines or criteria been issued on how companies can take advantage of the scheme? Secondly, do you have a breakdown of that £500 million? How much of that will be in the form of loans or other forms of financial help, and what percentage will be in the form of guarantees?

**Dr Wilson:** The detail is being worked out. As it is a Scottish Government scheme, I do not have all that detail to hand, but we are working with the Government on it and we are making sure that all our staff and account managers know about it. We do a lot of continuous professional development with our account managers so that they can start to talk to companies, and we have a raft of financial readiness advisers who, as soon as we have the detail, can get out there.

Through the Scottish business development bank, we have been working with the Scottish Government on expanding reach. We already have co-investment funds and loan funds; the scheme will be a welcome addition, but we do not have all the detail as yet.

**Dean Lockhart:** On a related issue—and to come back to the point about market failure—what percentage of the companies that you manage or assist over, say, a three to five-year period will fail? I am just looking for a ballpark figure with regard to the companies that you have assisted either financially or otherwise.

**Dr Wilson:** We assist about 12,000 companies a year in total, and we account manage in the region of 2,500 or 2,600. Every year, a few hundred come into the portfolio and a few hundred go out, not because they have failed but because they might have reached a plateau in their growth, do not want to work with us any more or do not want to go into other markets. Companies come in and go out, but that does not mean that they have all failed.

As I have said, there have been some significant and understandable write-offs for companies that have gone down, but I point out that we have also managed to rescue quite a lot of companies. We have all that detail and I can get it to you, but what I will say is that on every factor, including the employment of women, graduates and young people, the companies that Scottish Enterprise account manages do better than those

that are not account managed. They are also more efficient and effective.

I want us to account manage as many companies as are eligible. In Scotland, we need to grow the pipeline of companies that are willing and ready to grow so that we can account manage them.

**Dean Lockhart:** You said earlier that you had supported a couple of major success stories. What percentage of investment is equity linked, as opposed to being in the form of direct grants or loans, meaning that, if a company such as Skyscanner goes through the scales, you get an equity-linked upside at the end of the day?

**Dr Wilson:** All of our co-investment funds are equity through the Scottish Investment Bank. I believe that we have a few hundred million pounds-worth of assets under management there. Is that right, Iain?

**Iain Scott (Scottish Enterprise):** I think that the figure is about £450 million or something at the moment. Each year we put in about £80 million through investments by way of shares.

**Dr Wilson:** And that is all equity.

**Dean Lockhart:** Have the gains crystallised? Is there a line in the budget that shows that as profit or income?

**Iain Scott:** It is accounted as a profit, which we are allowed to retain up to a certain threshold and which we reinvest in similar companies. We have not yet gone over that threshold; that might well happen if one of the companies that Lena Wilson talked about earlier is sold, but at the moment, we reinvest the money in the year that we get the income and the surplus.

**Dr Wilson:** Last year, for example, £33 million was realised from those investments, and that went back into the public purse for reinvestment.

**Dean Lockhart:** I have a couple of final specific questions. As part of phase 1 of the review, it was announced that a new board of trade would be established to oversee the enterprise agencies and other agencies. Since then, the Government has announced that a strategic board will replace the agencies' individual boards. Obviously a bit more analysis has to be done, but what is your initial view of the replacement of the board of Scottish Enterprise by an overarching strategic board?

**Dr Wilson:** My view is that we will work really closely with Government to make this work. Indeed, that is my job. I welcome any efforts to co-ordinate better what we all do across Scotland and every effort to declutter the landscape; we just have to ensure that we design this well, that we get the right people on board and that we meet all

the needs of the Scottish economy. My job, therefore, is not so much to have a view as to make it work.

**Dean Lockhart:** You mentioned the globalscot network in your submission. How effective is that network and are any changes proposed for its structure?

**Dr Wilson:** The globalscot network is a real jewel in Scotland's crown. I have been involved in it since its inception. The people are unpaid and I always say that our job is to exploit them ruthlessly for their value to Scotland. All over the world we are increasingly using our global Scots to attract new foreign direct investment because the world of FDI is going to get very challenging.

I talked earlier about meeting a software company. Although I cannot go into any more detail, the introduction was made by a global Scot. Our inward investment leads are increasingly being given to us by global Scots. Our last evaluation said that global Scots helped Scottish companies to generate somewhere in the region of £30 million of additional business—we try to evaluate their contribution as far as possible. Global Scots are highly positioned in a lot of our key sectors and companies around the world and we use them as much as we can. We should be thanking them all very much.

**Dean Lockhart:** Thank you.

**The Convener:** Gillian Martin has a question, or questions.

**Gillian Martin:** I genuinely have just a supplementary question.

**The Convener:** Do not hesitate to follow up with a supplementary supplementary.

**Gillian Martin:** I come back to what you said earlier about identifying young people to start up in business. I convene a cross-party group on women in enterprise and we found out very early on that female graduates are one of the demographics that are not setting up in business related to what they studied. I am a former college lecturer and I found that my students were graduating and going into the world without any idea of how to set up in business. Are you tackling that? Are you getting into colleges and universities at the point at which people are graduating to help them to look at enterprise as a possible route?

**Dr Wilson:** That is a good question. I served on the board of the Prince's Scottish Youth Business Trust for 10 years, so I have a huge passion for young people who are starting up businesses. We will tackle the general issue of women going into business if we get girls thinking about going into business.

That is not one of Scottish Enterprise's specific remits, but we do as much as we can. A lot of our staff speak in schools. I have done Lean In events for young girls. Tomorrow morning, I am meeting three young women who want to meet and grill me; they are three of this year's graduates. I am considering a reverse mentoring programme with a young woman between the age of 17 and 21. If we can do that as role models, it will be really important.

Scottish Enterprise does not have a specific programme for young girls, but Skills Development Scotland works in that space.

**Gillian Martin:** You say that Scottish Enterprise does not have a specific remit but the cross-party group has already identified an area in which Scottish Enterprise could do more targeting. We talk about people being risk averse; the least risk averse people in our society are surely those who are on the cusp of leaving education and going out into the world without mortgages, families or other responsibilities. Surely there could be a hothousing opportunity there.

**Dr Wilson:** There is quite a bit of that in Scotland with all our incubators and we see increasing numbers of women going into them all over Scotland. They are not run by Scottish Enterprise, but we work closely with them.

We have just agreed a 10-point action plan with Women's Enterprise Scotland on a range of things that we could do, one of which might be better communication, marketing and role models. We are considering a special leadership programme for women in account managed companies so there might be something there that could involve young girls.

The other thing that we have is mentoring Scotland. Only a small percentage—fewer than 15 per cent—of the mentors are women, while 30-odd per cent of participants, or mentees, are women, so we need to match that up.

Even if we are not delivering, we can bring a lot of influence. We have a lot of reach; we can use our global Scots. I am willing to see what else we can do. We are working closely with Women's Enterprise Scotland on the 10-point action plan. I also participated in the investing women conference on how young women can get start-up capital. That was the first of its kind and we are working with them on how we can access international finance.

11:15

**John Mason:** Are different models of business ownership a factor in how you look at things? There is a bit of a push for more social enterprises or more co-operatives. Do you tend to favour the

traditional approach of one owner, a group of owners, share owners or whatever?

**Dr Wilson:** I am very interested in innovation around business models and part of that is ownership. Last year, I spoke at the big employee ownership conference that we had in Scotland. Co-operative Development Scotland is part of Scottish Enterprise. We are now working with Social Enterprise Scotland on a scaling programme, looking at how we can scale up social enterprises. One of our renewable energy investment funds was to a housing association, on community energy to reinvest into social housing. We work with the homeless world cup on its global ambitions. A rich economy has many ownership models.

Also, a big way to counteract some of the problems that family businesses have with succession, when there is no-one in the next generation to take it on, is employee ownership. We have been working with a couple of great engineering companies that are moving to employee ownership—I can think of one in East Kilbride. We are getting as many role models as possible, including of employee ownership and social enterprises with global aspirations. While we do not have the specific community development role that HIE has, a rich economy is a very diverse economy. We can bring our expertise to any of that, particularly in rural areas.

**John Mason:** You mentioned HIE. I also asked them about their social development and strengthening communities role. Is that something either that you think that you should have or that they do not need to have, or are they two different things?

**Dr Wilson:** I would not presume to say what HIE should or should not have; it is a fantastic organisation. The role of Scottish Enterprise is economic development, particularly growth and transformative growth in sectors, in the business infrastructure and in companies. Then, it is our job to influence as much as possible; I am always very willing to push the envelope for Scottish Enterprise as much as possible.

We do not have a specific community development remit. Regional economic development was given to the local authorities and—as I said—small business and microbusiness development was given to business gateway. However, we participate in every single community planning partnership in our area, we are working with the city deals, and we have done a tremendous amount of work with North Ayrshire resulting in team North Ayrshire, which is a great blueprint for how we can work with the wider community. Community development is very important for the economy and we will do

everything that we can, but it is not a specific remit of Scottish Enterprise.

**John Mason:** To go back to the ownership question, in previous answers to questions you talked about getting your money out when you sell a stake. Does that suggest that there is a bias in Scottish Enterprise for businesses to sell out, rather than continue to grow with a Scottish headquarters? I see Skyscanner as a failure, because we have lost a Scottish headquarters. I saw Scottish Power as a failure, because we lost a Scottish headquarters. Are you relaxed about that?

**Dr Wilson:** I am rarely relaxed about anything, but we are in a global economy—we want to grow global Scottish businesses. We have Scottish businesses that go out and acquire other businesses all over the world and we are very happy and relaxed about that. The quid pro quo is that not every business that grows in Scotland will end up owned in Scotland.

The Skyscanner deal has allowed us access to a huge Chinese company for the first time. I will be seeking other investment from that; the company is committed to Scotland as its European headquarters and committed to grow in Scotland. The trend is that most companies that are acquired have deeper pockets and they still grow in Scotland. While I would love all our companies to be Scottish owned and global, the reality of the world just is not like that. We want to do everything that we can to encourage that.

To answer the first part of your question, a relatively modest part of what Scottish Enterprise does in terms of our total budget relates to venture capital and risk capital. Most of our budget supports Scottish companies to grow. We are looking for a return on risk capital, because we do not want to lose public money. I want to get a return so that I can reinvest it.

**John Mason:** We are taking evidence on the budget, although we do not know what it is yet. How sensitive is your work to a change in the budget? If your budget went up by 5 per cent, could you do a lot more, or would it just mean tweaking things? If your budget went down by 5 per cent, would that make a big impact, or would it just mean tweaking things a little bit?

**Dr Wilson:** I keep going back to what my job is. My job is always to do the best with whatever we are given—not to complain about it but just to get on with it.

We are going as far as we can in terms of efficiencies. We have tried to be as efficient and effective as possible. We could always invest more in helping companies to internationalise. For example, I said that we have increased our office footprint internationally by a third. That is very

expensive, at several million pounds. If we wanted to increase our international footprint significantly, that would be an example of something that required additional budget.

We would never take the salami-slicing approach of a 5 per cent cut in budget meaning that we cut everything that we do by 5 per cent. We would look at the areas that are most likely to yield the biggest return for the Scottish economy and try to protect those, so that we are as efficient as we can be. It is not as easy as that, but I started by saying that, although our budget has reduced by 16 per cent in real terms from 2008, we have done what we ask every business in Scotland to do: we have achieved more. There have to be limits to that.

**Gil Paterson:** What is the general attitude to Brexit among your contacts in Scottish business at present?

**Dr Wilson:** I can tell you that, because we monitor it. Every quarter, we speak to 500 companies to see how they are doing. The general attitude is that businesses are very uncertain and they still do not know how Brexit will affect them. They tend to think that it will affect them negatively.

I have been passed a copy of our economic trends review. It might be useful for the committee to get that every month and I would be very happy to provide it. It is a snapshot. I am not suggesting that Gil Paterson would be able to read it from his seat.

**Gil Paterson:** I do not know if I would be able to read it anyway. [*Laughter.*]

**Dr Wilson:** The companies that we work with tend to be more positive, by virtue of the fact that they are growing and that is why we are working with them. I should say that up front.

There is a lot of uncertainty. More of them think that Brexit will affect them negatively than positively. It is really important to understand that Brexit will not affect all companies in the same way. It affects financial services companies greatly, because of issues such as passporting and the movement of people. It does not affect some of our larger multinational companies so greatly, because they are in lots of markets all over the world. It affects companies such as textile companies and hospitality because of the movement of people. It depends on the sector.

There is a lot of uncertainty, which is the enemy of confidence. A lack of confidence is the enemy of investment, and that is why we are seeing hesitancy and slowing down, even for companies that might have some cash in the bank.

**Gil Paterson:** I can understand that. I do not know whether anybody really knows what Brexit means in the long term.

The one thing that we do know, and you touched on it, is the strength of the pound. From the feedback that you have had, what impact is that making? Is it negative or positive?

I could tell you from my business, but I am not here to do that. What are you getting back from Scottish businesses?

**Dr Wilson:** We are actively encouraging companies that are already exporting to up the ante and take advantage of where the pound is. Exporting will be more beneficial in terms of returns. Companies booking their profits in other currencies can be advantageous, but the gains are short term.

Import substitution is a real problem because it becomes much more expensive for companies to buy ingredients, raw materials or parts of the supply chain. The optimist in me says that it is our job to think what we can do for Scottish companies to enable them to get into that supply chain. We have to be a bit more forensic about the matter. There is opportunity and there is a cost. We need to focus on the opportunity but be realistic about the cost. In the oil and gas slowdown, for the first time, we had to work with companies in the oil and gas supply chain only on their financial resilience and we have never seen that before. We are used to doing such work and, if companies are really struggling as a result of the situation, there is a lot of advice that we can give to help them to eke out their cash, ride out some of the impacts and be more efficient. We will do that as well as consider the opportunities.

**Liam Kerr:** Like John Mason, I am interested in the forthcoming budget. In your opening remarks, you said that we had reached the bottom on oil and gas. However, you will be aware that the EY Scottish ITEM club report that came out yesterday talks about the future for Aberdeen. In particular, it says that the

“oil and gas hub continues to be affected by the fall in oil prices with total employment in the city expected to fall by 1.6 percent ... in 2016”

and by 4,000 through to 2019. What is Scottish Enterprise’s response to that? You have just said that you have done quite a lot of work on financial resilience up to this point, but that is new information. Does that news change your spending and budgeting allocation and projections?

**Dr Wilson:** Do you mean for oil and gas specifically?

**Liam Kerr:** Yes, or for the north-east and Aberdeen.

**Dr Wilson:** I have the privilege of chairing Scotland's oil and gas jobs task force, and I am going to Aberdeen tomorrow for two days. I have probably spent more time there in the past year than I have in the city in which I live, which shows that the task force has been really important.

We have just redirected a massive amount of people and budgetary resources. We have worked with 700 companies in the oil and gas supply chain. We have held a series of events in Scotland. We have a pipeline of about 30 innovation projects in Aberdeen at the moment. We have worked with Ian Wood and his team on the new Opportunity North East—ONE—board, on which we sit. We have worked on the city deal. We are working on diversifying food and drink, tourism and life sciences.

There are huge opportunities for Aberdeen to be the world's global hub for all subsea technology. Even when the oil has gone in 40 or 50 years, we should be the global hub for such technology. There are massive opportunities in decommissioning. I have met 30 companies, and I will meet Nexen tomorrow.

As I said, I chair the task force, and we are doing absolutely everything that we can because the oil and gas sector and the food and drink sector have been massively important for Scotland. I have been an advocate for not wasting the crisis but instead using this terrible time to become more efficient and effective, to help the industry become more cohesive and collaborative and to bring about more standardisation of products. I have three trade union representatives on the task force working on workforce relations. We have a fact sheet on everything that the task force has achieved and I am happy to get that to the committee.

The reality is that the situation has been challenging, but I have not seen such collaboration from an industry for a long time. It is focusing minds on the other opportunities for the north-east and the other sectors that I mentioned.

**Liam Kerr:** Thank you. That is really encouraging and is good to hear. However, your budget projections are based on the current situation and how it looked like it would develop, and we have now had the news that there may be more to come. Does that mean that you will need more budget from the Government to carry out all those good measures?

**Dr Wilson:** I do not know. I thank all the political parties for largely resisting making the task force a political football. I begged everybody not to do that as we are just trying to do everything that we can for the sector.

My job is also to get people other than Scottish Enterprise to spend the money, if possible, and we

are encouraging the industry to step up. We are also working with Skills Development Scotland to redirect its budget—it has been absolutely terrific—and we are working hand in hand with Highlands and Islands Enterprise.

Often it is not about throwing extra budget at something; it is about collaboration and being more efficient. We are working with Oil & Gas UK to see what we can do through its members, and with the Oil and Gas Authority, which also sits on the task force.

I do not jump to increase the budget as the first answer, but if we find opportunities that can only be matched if we have the budget, it is my job to talk to the Government about how we might meet that need. I cannot say—so far—that we have not been able to do something because of a lack of budget.

11:30

**Liam Kerr:** We have been looking at the enterprise and skills review. In terms of budget, how will the creation of the new south of Scotland agency impact on Scottish Enterprise? How will it be funded, and is there any risk that that will come out of your pot?

**Dr Wilson:** I cannot answer that because we do not have the answer yet. It has all to be worked through and we will work very closely with the Government in the next stage of the review.

Scottish Enterprise does a great deal in the south of Scotland. We account manage a significant number of companies in the south of Scotland and we work with the South of Scotland alliance. We have people from our top team covering important areas—Iain Scott is our most senior representative for the south of Scotland, so he might want to add to that.

We are not yet at the stage where we know anything about budgets—we still have to work that detail out—but Scottish Enterprise spends £6 million a year in the HIE region and is currently the national agency. It has the Scottish Investment Bank, the Scottish manufacturing advisory service, the renewable energy investment fund and Scottish Development International, which are all pan-Scotland services. I imagine that that will continue. It is really important that you understand that Scottish Enterprise covers the whole of Scotland for much of what we do and that there is strength in the national approach.

**Iain Scott:** On Lena Wilson's final point, just over 50 per cent of Scottish Enterprise's operational budgets are available pan-Scotland, so they are available in the Highlands and Islands region. I cannot imagine that anyone would want them not to be available in the south of Scotland in



the future. As Lena said, SDI, the Scottish Investment Bank, SMAS and a number of other services are covered in that way.

I have had initial discussions with both councils in the south of Scotland region and I was at a South of Scotland alliance meeting yesterday. It is too early to say what the new vehicle might evolve into. There have been good discussions about ensuring that the agency will be very focused on the key issues that are unique to the south of Scotland, which Scottish Enterprise has possibly not focused on as much in the past. The agency should absolutely focus on those, but it should not lose the integration that it can have with the wider team's sector experience and some of the other operations that Scottish Enterprise will continue with. I am sure that we will work with the Government to come up with a good answer, which might even be a good model for other areas in the country thereafter.

**Gillian Martin:** I have a supplementary question to Mr Kerr's question about oil and gas. You will be aware that we are having a debate this afternoon on renewable energy. With the skills base that we have in the north-east, we have a massive opportunity to capitalise on the emerging energy technologies in Scotland. On diversification into new markets for people from the oil and gas industry in the north-east, what has been done to maximise the opportunity for work in construction, manufacturing and the renewables sector—particularly in tidal, given that we have a head start on that?

**Dr Wilson:** We have been doing quite a lot on tidal, for example with the MeyGen project, which is the first commercially operating tidal project. The UK environment for energy policy has changed and there is some uncertainty about the future. There are also offshore wind platforms—you should look at Statoil and what it is planning for the north-east with floating offshore wind platforms. There is a lot going on with renewables. One of the positive factors of the past year is that many of the oil and gas companies are now looking to utilise their skills in renewables.

We knew that the application of oil and gas experience and technology could reduce costs in renewables by about 25 per cent; that is relevant because we have to bring those costs down to make renewables a reality. However, I now see more oil and gas companies themselves going into that area. We work closely with Scottish Renewables because a lot of the skills are transferable as well. Tidal power, offshore wind and carbon capture and storage are important areas, as are the opportunities around decommissioning and so on. We are working on all of those.

Renewables are important not only for the north-east of Scotland. The sector is relevant to Hunterston and to the Fife energy park, with its turbine. Scotland has 25 per cent of Europe's offshore wind resources around our coast.

**Gillian Martin:** Denmark is a world leader in wind technology, and a lot of Danish companies are coming to Scotland to use our natural resources. Denmark also exports the hardware that it manufactures. What could we do to ensure that we become a world leader in, for example, tidal technology, as Denmark has done in wind technology?

**Dr Wilson:** We are a world leader with regard to the technology and knowledge around wave and tidal power. In EMEC in Orkney, we have a world-class facility. We have some world-class test and demonstration facilities. We have the best university knowledge, too, in relation to some of the stuff that the University of Strathclyde, Robert Gordon University, the University of Aberdeen, Heriot-Watt University and the University of Edinburgh are doing around renewables.

We are world class. Our job is to ensure that as much of that as possible is commercialised in Scotland. However, a lot of the investment is pre-commercial. It is risky, and it will not all work—we saw that with some of the wave investment that we made. However, as a country, we have to go for it. This is an extremely important area for Scotland as part of our overall blended energy portfolio and mix, as well as in terms of our economic advantage.

**Gillian Martin:** I agree that we are a world leader with regard to technology and innovation, but not enough of the manufacturing of the hardware is done in Scotland. Of course, Scotland is, traditionally, a world leader in engineering and construction. That has been the case with shipbuilding and the oil and gas sector, and it could be the case with the renewables sector. What has been done to attract contracts in that regard? For example, Scottish companies have won contracts, but the manufacturing has taken place in Belfast. What has been done to get that construction here?

**Dr Wilson:** We need to ensure that we are building the supply chain and the opportunities here. For example, we are working with Statoil on an open innovation programme to see what technology it would need and to determine whether Scotland can respond to that through the supply chain. Our board just made a decision to make a significant on-going investment in the Fife energy park, which will put better loading into that site and do a lot of stuff on the quayside, because a lot of the issues are infrastructural. Those are examples of what we are doing with regard to infrastructure and supply chain development. We

are matching that with our inward investment opportunities. The deal with CS Wind is a good example of what we have done to bring Chinese investment to Scotland in that field.

**Gillian Martin:** To encourage such investment and facilitate that work, what key requests would you make of both Governments?

**Dr Wilson:** I think that we have done well in Scotland by pinning our colours to the mast and, as a country, setting policies and targets around renewable energy and matching our economic development to them. When Amber Rudd was the Secretary of State for Energy and Climate Change, I met her and petitioned on behalf of Scotland because I think that the way in which the UK policy in the area is going is quite challenging for us. I would ask that we do everything that we can to influence the right kind of policies that will not just enable early-stage development in the sector but make the sector as a whole financially viable.

**Jackie Baillie:** I understand that Scottish Enterprise has a role in providing funding for and having an overview of SDI. Therefore, it is in the lead with regard to exporting. Scotland's economic strategy had a target of increasing exports by 50 per cent by 2017, which, as I remarked earlier, is but a few weeks away. How is your budget aligned to deliver on that?

**Dr Wilson:** I think that I heard you ask Charlotte Wright about that, and I made a note in an effort to disaggregate that information for you, but I do not have the resource to do it here. We do not manage our budget in that way—we do not have a pot for exporting and so on. We have a very blended approach to our account managed companies, whereby we try to do everything possible to make them grow.

We have put a lot more money into SDI, because we rely on too few exporters—you will be amazed to learn that probably fewer than 100 companies account for 90 per cent of Scotland's exports. The trick is to get many thousands of companies exporting, which is why we reached more than 2,000 companies last year. I can get you the figure for that. We are throwing everything at it that we can, but it is extremely important that we do not see that just as an exporting pot for encouraging new companies to export; getting a company ready to export is a much more complex and sophisticated process than that. It is necessary to have the right product for the right market, the right leadership team and the right financial resources. The worst thing that we could ever do—as I have previously told the committee—would be to encourage a company to go into an export market when it is just not ready to do that, because it will fail. As Charlotte Wright

said, it takes some time to get a company ready to do that.

As I said when the target was set, I am always more of a fan of a big hairy target that is challenging and which we might not reach than I am of an easy target that we will surpass. I think that, as a country, we should set stretching targets, hold people to account and do everything that we can to achieve those targets. We must understand the circumstances. There are only two targets that Scottish Enterprise might not make this year: one is on foreign direct investment and the other is on exporting. That is wholly down to the global environment that we are in and the levels of uncertainty that exist, which I mentioned earlier. If people want to beat me up for that, that is fine, but that is where we are. The world situation does not stop us going for those targets, but it will be challenging to meet them.

**Jackie Baillie:** I accept some of that, but the target covered the period from 2010 to 2017. The challenging global conditions did not really exist to the same degree before now. You seem to have given us an admission that you will not meet the target but, as policy makers, we need to understand why that is so that in future we can set targets that are equally challenging and ambitious, but which might be achievable. I am interested in what budget is applied to meeting that target.

Your business plan for 2015 to 2018 gives SDI £42 million this year and £43 million next year.

**Dr Wilson:** Yes.

**Jackie Baillie:** The First Minister has made announcements about priorities that she favours, such as doubling the number of European exporting staff from 20 to 40. Do you expect to receive new funding from the Scottish Government to cover that in its entirety? Are you expected to provide any in-kind support?

**Dr Wilson:** I am expecting to receive 100 per cent additional funding for those new resources in new markets.

I point out that 2010 was just a year after the financial crisis, so it was a challenging time. I think that we have come a long way on exporting. I will never be satisfied with how we are doing on it, but we will never do what we want to on exporting unless we all work on the levels of ambition in business, in young people and in the country as a whole, because that underpins everything.

**Jackie Baillie:** You said that you were likely not to meet your target on foreign direct investment. Will you refresh my memory on what the target is? Why is it likely that you will not achieve it?

**Dr Wilson:** For the past seven years, Scotland has topped the UK for foreign direct investment. We have more than punched above our weight.

When a country consistently punches above its weight, there will come a year when it does not.

Iain Scott will refresh my memory on what the target is. [*Interruption.*] We said that, by 2018, we would have attracted between 22,000 and 28,000 planned jobs through inward investment and that, in 2016-17, we would attract between 7,000 and 9,000 jobs. We might meet that target, but if we do, the figure will be at the bottom end of the range. We must bear in mind the conditions in the global environment. Foreign direct investment throughout the world is going to change this year—it is going to fall. We may see more protectionist policies from the United States. We see a more domestic agenda from China. There is uncertainty about the UK as a destination for companies that are looking to come to Europe. It is just much more challenging.

However, Scotland has done remarkably well in foreign direct investment in the past seven or so years. It is the top region outside London. It has the highest amount of research and development foreign direct investment per capita. We have done very well.

11:45

**Jackie Baillie:** The national performance target on productivity was for Scotland to be in the top quartile of OECD countries by 2017—that was the ambition. It looks as though we are going to remain at 19th place, which is well off pace—it is in the third quartile. What was Scottish Enterprise's contribution to productivity, and where did we go wrong in that area?

**Dr Wilson:** That is a real challenge for Scotland. Ambition and productivity are the crux. I think that Charlotte Wright said that there are structural aspects in our economy that are involved. Productivity is a blend of many things, including innovation and investment. Given where we are in terms of business innovation, we would need a 200 per cent increase in our innovation levels to get us to the top quartile. That has a big effect on productivity. We know that companies that export are likely to be more productive, because they are competing against best in class, so the fact that we do not have enough exporters plays into the position as well. The fact that we have so many microbusinesses in our economy—they do not get the scale—plays into it too.

We do everything that we can with companies through things such as the Scottish manufacturing advisory service, which works on productivity. We are training all our account managers and talking to all our companies about workforce innovation, because treating employees better—fairer work—tends to be more productive. We have made 102 regional selective assistance awards since

February last year, and all the companies receiving those awards have signed up to an invest in young people plan—that will help productivity. We have also launched productivity plans for the food and drink, tourism and construction sectors. Those are three high-employment sectors in Scotland that have significantly lagged behind in productivity, so we are now working with them at a sectoral level to address that.

Those are some of the things that we are doing, but we are all going to have to work very hard at it.

**Jackie Baillie:** I wonder not just about the sectoral level but about the regional level. I am conscious that we have had world-class productivity gains in oil and gas as a consequence of the downturn. If you compare the gross value added for Aberdeen with that for Glasgow, you see that there is a significant difference. I wonder whether, as well as a sectoral approach, there is a regional approach.

**Dr Wilson:** The city deal in Glasgow is a great opportunity to focus on innovation, for example, as we know that innovation leads to greater productivity. We have done work with the three Ayrshire councils that has ended up with more companies in the account management pipeline. That means that those companies are inherently more productive. There is a lot that we can do.

I have always said that there is no secret sauce in Scottish Enterprise. I will give away all our knowledge and expertise—the taxpayer owns it—to anybody who wants to understand and work with us. We have worked very successfully with some local authorities on their particular local and regional challenges.

A factor in productivity is also the ability to connect, which is why transport is very important. The ability to connect with Glasgow or with Edinburgh becomes very important. It is not always about taking productivity opportunities to every part of Scotland; we will never succeed if that is our mentality.

**Jackie Baillie:** This final question does not require a response. I know that Scottish Enterprise does a gender impact analysis of its budget. Could you provide that to the committee as we scrutinise the budget when it eventually comes out?

**Dr Wilson:** We do that analysis, and I am happy to provide it.

I am also happy to say that 56 per cent of my top team is female, 47 per cent of the wider leadership is female and nearly 60 per cent of our board is female. I believe in leading from the front in that regard. When I became chief executive seven years ago, I was the only woman on the top team.

**The Convener:** Does that mean that your gender imbalance is wrong in another sense this time?

**Dr Wilson:** Pendulums swing all the time, do they not? I always say to our young graduates that it is important that boys and young men feel valued, too. However, let us face the facts: women, who are 51 per cent of the population, are underrepresented in the economy. In simple terms, we are missing a terrific asset that I want to make sure that we exploit.

**The Convener:** I was making the point that things come and go and there will not always be a precise 50:50 gender balance. Merit and ability also play a part.

**Dr Wilson:** I am an inherent meritocrat. I get the best people, but I encourage everybody to fulfil their potential. When we do that truly, we will have balanced workplaces anyway.

**The Convener:** Yes.

**Richard Leonard:** I have a specific budgetary point that I will come on to in a second. First, on the subject of pendulums and a matter that John Mason alluded to, are you not concerned at all with the fact that 34.6 per cent of the Scottish economy is owned overseas? That compares with a UK average of 27 per cent, a figure of 20 per cent for the south-west of England and a figure of 30 per cent—the next highest—for the West Midlands.

**Dr Wilson:** We cannot, on the one hand, say that we are doing brilliantly well on foreign direct investment and that Scotland is a brilliant place with rich assets to exploit if, on the other hand, we are going to complain that we have too much foreign ownership. We have to decide what we are. It would worry me if those companies were coming because we were cheap or so that they could make a fast buck and go, but they are coming to invest in our assets, people, natural resources and universities. They are a massive contributor to our exports and developer of our supply chain, they employ most of our graduates and they lead from the front. They become intrinsically Scottish companies—a company that is here in Scotland is a Scottish company.

Our track record is not that those companies take flight; rather, it is that they continue to invest. I am not blasé about anything. My job is to maximise the Scottish economy. Would I love it if we had so many global home-grown companies in Scotland that there was no room for foreign direct investment? Of course I would, but we have to be realistic. We do very well in high-value jobs. We have seen the highest growth in the UK for high-value jobs and R and D jobs as a result of foreign direct investment. That tells me that that is a

terrific investment in the economy, not a fly-by-night investment.

**Richard Leonard:** You are a long time in economic development. You know that the electronics industry, for example, came and went, and a lot of the claims that you make for the current crop of inward investors were attributed to the electronics industry. That industry went, did it not?

**Dr Wilson:** May I challenge you on that? I worked for the electronics industry and my first job was on inward investment, as was my sister's first job, which was in semiconductors. Those investors came for cheap labour, but that is not why foreign direct investment comes to Scotland now.

When we were making most of Europe's computers, it was because we were cheaper than other countries; then Czechoslovakia became cheaper, followed by Asia. We have moved up the value chain. We have learned a lot. Our first call centres were to get people a start on the ladder. Now we have bilingual and trilingual technical support centres; now we do not manufacture computers but are at the heart of software development. IBM has several thousand people in software development and Hewlett-Packard, which used to manufacture computers here, works on cybersecurity and software development. We have moved up the food chain and the value chain considerably through foreign direct investment.

We gave a lot of people who had lost their jobs during the industrial decline new jobs in the 1950s, 1960s, 1970s and 1980s. I have not been around that long, but I have been around since the 1980s.

You make a valid point about the manufacturing environment. As I say, I worked for two of those companies, but we have moved up the value chain significantly in life sciences, energy, software, technology and financial services. Of all the financial services jobs that come to Glasgow, 50 per cent are a result of US investment. They follow the sun—the global investment is down to our skills base.

**Richard Leonard:** You do not have any concerns that we are becoming a branch plant economy?

**Dr Wilson:** You are trying to pigeonhole me into one or the other, and I do not think that that is fair. My job—on behalf of all of us—is to get the best value for the Scottish economy. I believe that that is our strategy, and that the foreign direct investment that comes to Scotland is high value and is here to invest in Scotland. It is not either/or. We must at the same time do everything that we can to grow Scottish global firms. I do not want either/or; I want both. I want everything for the Scottish economy, for my children and for your

children. It is unfair to be as black and white as that.

**Richard Leonard:** Okay. I will move on to another issue on which I will try not to be black and white, but forgive me if I am. You spoke earlier about the importance of supporting local and regional economies. We have been to California during the course of the past hour, but can I bring us back to Causeyside Street in Paisley? You are closing the Paisley district office of Scottish Enterprise, but I understand that that is opposed by Renfrewshire Council, the Public and Commercial Services Union and others. Why are you doing that? Is it a result of the budgetary constraints that you face? What are your plans for the other 11 district offices?

**Dr Wilson:** To start at the end, we have no plans to close any other offices. To go back to the beginning, PCS supported the Paisley closure as part of collective bargaining, but it then came out and did some stuff with the press, which was unfortunate. However, I have all the documentation that shows that we consulted PCS fully and that it supported our plan early on.

The Paisley building has health issues and is old. We rattle around in it and it is not safe for our staff. It is also overly expensive in its use of energy resources. Not even 6 miles away, we have an office in Clydebank and an office in Glasgow, and we have lots of space. We are not cutting any of the resource that we spend in Paisley or Renfrewshire; we are looking to join with our partners, whether it be the council, Skills Development Scotland or whoever, to provide hot desks for our staff. It must be remembered that most of our staff do not work from an office but are out with their customers and clients.

I am trying to do what any business would do, which is to be as efficient as possible. No customer or client will suffer and no opportunity will be missed because of the closure of the Paisley office. If someone needs a desk in Paisley, we will work with one of our partners to get one, and we have lots of other offices nearby as well. However, I repeat that the building in Paisley is very costly and is not safe. I therefore have a duty of care, on behalf of the taxpayer and our staff, not to retain the building. We cannot have the attitude that we must have an office everywhere all the time, given that we are such a small country. In any case, most of our staff now work all over Scotland. They may be based in an office, but they work all over the country. Nick Shields, who is the director of our Scottish manufacturing advisory service, is notionally based in Paisley, but he works all over Scotland all the time. We do not have closed boundaries round parts of Scotland; we use our talents to work throughout Scotland.

**Richard Leonard:** But if that is your approach, why should the people who live around the other 11 offices be confident about their future?

**Dr Wilson:** Because I have told them that I have no plans to close any other offices. We have a massive staff engagement approach. We are one of the few public sector companies in *The Sunday Times* list of the top 100 companies to work for. We care about our staff. We have been given a healthy working lives gold award and an investors in people gold award. I have met personally about 600 of our staff in the past three months in a series of “meet Lena” sessions and told them that we have no plans to close any other offices—and I am not in the habit of telling lies.

**Richard Leonard:** Okay.

**The Convener:** To return to a previous point—I will try not to ask a pendulum question—is it your point that there can be mutual benefit in Scottish companies investing abroad and foreign companies investing here? In other words, it is not simply a matter of a company coming from abroad and taking from Scotland or a Scottish company doing the same abroad, because trade and so on can be of mutual benefit to the countries concerned, depending on how companies conduct themselves.

**Dr Wilson:** Yes. Ultimately, my only point is that we are in a global economy. I do not want to appear as being relaxed about anything or not caring. If we anchor investment in Scotland, because of our assets it is less likely to go. We should also remember that a number of Scottish companies faced going to the wall in the past year, but an overseas buyer came in, injected capital and helped the company and its jobs survive.

**Gordon MacDonald:** You said earlier that, despite your lower budget, you have achieved more. However, a submission to the enterprise and skills review by Tony Mackay from Mackay Consultants said:

“I believe that Scottish Enterprise ... and Highlands and Islands Enterprise ... have generally made very good use of their budgets but that their contributions to Scotland’s economic performance have declined recently”.

Is that your view? What would be the reasons for holding that view?

**Dr Wilson:** I do not hold that view. I realise that I have a job that many people have an opinion about, and that many people think that they could make a better fist of it. A lot of opinions have been expressed, but the fact remains, as I said earlier, that Scottish Enterprise has helped create 55,000 jobs over the past four years or so. For every pound that we have invested, we generate about £9 back. The Audit Scotland review said that we are very good value for money, are governed well and have a transparent and serious impact on the

economy. However, I welcome any challenge on how to do it better and any data or evidence. If there is a better way to do it, and I do not know it, I would be very willing to look at that.

12:00

**Gordon MacDonald:** You said that 55,000 jobs have been created and that there has been a growth in export sales, but another organisation said:

“The model adopted for grant based funding is one based on number of jobs as opposed to amount of investment. For capital intensive processes such as Agricultural Chemicals production, this is a disadvantage even though the amount of export sales is considerable.”

Is that about competing demands? If so, what takes priority?

**Dr Wilson:** I do not know who that was from or what kind of grant they were talking about. Our innovation grants would be for the kind of things that you talked about, but RSA, which is a European grant, is jobs based, so it depends on what we are talking about. I want to ensure that our grants process is not at all cumbersome and is as transparent and easy as possible. We are doing a lot of work with customers to make the process faster and more digital. I am happy to talk to you about that but I do not know the specific grant.

**Gordon MacDonald:** It does not specify.

**Dr Wilson:** If it was RSA, that is based on the jobs outcome, and that is a European issue.

**Gordon MacDonald:** In terms of growing the Scottish economy, what research does Scottish Enterprise carry out to identify where the growth areas are and where you should be putting in support?

**Dr Wilson:** We have 85 people around the world, and we use them a great deal for intelligence. We connect with our universities all over the world. We use our global Scots. We have a world-class economics research and evaluation team and we work with all the growth sectors on a plan for each sector that identifies global opportunities. There is no point in just identifying those opportunities—we then have to understand what Scottish assets we have that we can exploit. Our job is to find disproportionate growth in the world and match it to a Scottish asset—and then exploit the heck out of it.

**Gordon MacDonald:** Another contribution, on the subject of making support simpler and clearer so that it helps to deliver Scotland’s vision, said:

“I rarely see SE or the other agencies leveraging best in class techniques used in other places or published studies on enterprise and skills support. Instead I see all these agencies to be too keen to commission their own novel

research which generally involves asking (relatively speaking) non-experts for their opinions rather than evidence based analysis.”

Given the pressure on your budget, is that a fair criticism?

**Dr Wilson:** I do not know, because I do not know who it was from. Was it anonymous? What was the detail?

**Gordon MacDonald:** It was from Toshiba Medical.

**Dr Wilson:** There were 600-odd opinions given to that review, so my attitude would be to sit and meet anybody who had a better way of doing it. We do not spend a lot of money on other experts and we have our own evaluation team. I am quite obsessed with evidence, because it is often the only thing that I have to explain why we do one thing and not another.

We can bring it back to the gross value added to the economy. That is what leads Scottish Enterprise to make our investments. If someone does not get money from us, I can understand why they sometimes get annoyed at that. I would be happy to improve, but I do not recognise that as a theme that other customers tell us.

**Gordon MacDonald:** Okay. Thanks very much.

**The Convener:** Thank you very much to both of our witnesses, Dr Lena Wilson and Iain Scott, for coming today. We will move into private session now, so I ask those in the public gallery to leave at this point.

12:04

*Meeting continued in private until 12:25.*

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.

---

Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

---

All documents are available on  
the Scottish Parliament website at:

[www.parliament.scot](http://www.parliament.scot)

Information on non-endorsed print suppliers  
is available here:

[www.parliament.scot/documents](http://www.parliament.scot/documents)

For information on the Scottish Parliament contact  
Public Information on:

Telephone: 0131 348 5000

Textphone: 0800 092 7100

Email: [sp.info@parliament.scot](mailto:sp.info@parliament.scot)

---



The Scottish Parliament  
Pàrlamaid na h-Alba