OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Energy and Fair Work Committee

Tuesday 25 September 2018

Session 5

The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 25 September 2018

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ECONOMY, ENERGY AND FAIR WORK COMMITTEE
26th Meeting 2018, Session 5

CONVENER

*Gordon Lindhurst (Lothian) (Con)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Jackie Baillie (Dumbarton) (Lab)
*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Angela Constance (Almond Valley) (SNP)
*Jamie Halcro Johnston (Highlands and Islands) (Con)
*Dean Lockhart (Mid Scotland and Fife) (Con)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Carroll Buxton (Highlands and Islands Enterprise)
Steve Dunlop (Scottish Enterprise)
Linda Hanna (Scottish Enterprise)
Nick Kenton (Highlands and Islands Enterprise)
Iain Scott (Scottish Enterprise)
Charlotte Wright (Highlands and Islands Enterprise)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy, Energy and Fair Work Committee

Tuesday 25 September 2018

[The Convener opened the meeting at 10:10]

Decision on Taking Business in Private

The Convener (Gordon Lindhurst): Welcome to the 26th meeting in 2018 of the Economy, Energy and Fair Work Committee. I remind everyone to turn their electronic devices to silent or off if they might interfere with proceedings.

Agenda item 1 is a decision on whether to take items 3, 4 and 5 in private. Do we agree to do that?

Members indicated agreement.

Pre-budget Scrutiny 2019-20

10:11

The Convener: Agenda item 2 is pre-budget scrutiny. I welcome our witnesses, who are all from Highlands and Islands Enterprise: Nick Kenton is director of finance and corporate services; Charlotte Wright is chief executive; and Carroll Buxton is director of regional development. We will move straight to questions from members, starting with Jamie Halcro Johnston.

Jamie Halcro Johnston (Highlands and Islands) (Con): I have a number of questions, some of which will focus on broadband. However, to start off, I would like to know how the reduction in budget over recent years has impacted on Highlands and Islands Enterprise's work and on your ability to provide, maintain and safeguard employment.

Nick Kenton (Highlands and Islands Enterprise): Our budget has remained fairly stable over the last three or four financial years. It was reduced slightly in 2016-17 as a result of the spending review. It went back up again in 2017-18 and we benefited from some in-year capital additions in 2017-18. For 2018-19, the resource budget has gone up slightly. The capital budget has stayed the same in terms of baseline; that is lower than last year, because we had the benefit of some in-year increases last year. The budget has been relatively stable in cash terms, but of course that translates into a slight reduction in spending power.

Charlotte Wright (Highlands and Islands Enterprise): On the second part of your question, over the past year, 2017-18, we dedicated more of our resources directly to support to companies in pursuit of creating sustainable employment.

Jamie Halcro Johnston: If you were analysing your performance against targets, how many jobs have been created by your account managed companies over the past year? How much of that can be attributed to your work and your interventions?

Charlotte Wright: The jobs created, which we counted against our performance measures for 2017-18, were 981; the majority of those jobs come through our account managed portfolio. We also give support to non-account managed companies, dependent on the nature of the project, and to some of our broader programmes such as internationalising and innovation.

In counting those jobs, we measure only those that are created through our support. We have a process that enables us to do that. An expansion project by a company may create, say, 100 jobs, but through an approach of looking at what we call the base case, we examine what would have happened without our intervention and then what has happened with our intervention, so that we can attribute the amount of job growth specifically to the intervention that we have made. We can provide you with more detail on how we do that, if that would be helpful.

Jamie Halcro Johnston: That would be interesting. You referred to 981 jobs for last year. What would the target have been, or do you have a target for job growth?

Charlotte Wright: Yes, we do. I am sorry, I do not have—

Carroll Buxton (Highlands and Islands Enterprise): We have a target range. I think that last year the range was between 800 and about 1,200, but the figure was about mid range.

Charlotte Wright: Yes. Over the past five years, we have met all our job creation targets.

Jamie Halcro Johnston: Thank you. I am sure that colleagues will ask more questions on that.

As a Highlands and Islands MSP, one of the areas that I wanted to ask about was broadband. There seems to have been quite a major cut, of around £8 million, in investment in broadband. Why has the budget been prioritised in that way and, given that the region remains so dependent on good-quality broadband, how was that decision made?

Charlotte Wright: Is that with regard to the broadband programme that Highlands and Islands led with support from the Scottish and United Kingdom Governments?

Jamie Halcro Johnston: Yes.

Charlotte Wright: I do not think the budget was cut for that.

Jamie Halcro Johnston: Okay.

10:15

Carroll Buxton: I think that the spend has been lower than the forecast spend, but the delivery has been as we said in the contract. All the contractual targets have been met, but with a lower level of spend.

We are continuing to spend beyond the original period of the contract through making use of the underspend and the things that have been delivered more cheaply. We have reinvested in further roll-out and by clawing back the other take-up. The original take-up was targeted at about 30 per cent, but have been reaching over 40 per cent, at which stage British Telecom reimburses money into the contract. Therefore, although the spend is a bit lower, the actual contract has delivered more with less money.

Jamie Halcro Johnston: But that money would still be there to be spent. Has it just not been spent now?

Carroll Buxton: It is still there. I think that the intention is to roll it into the reaching 100 per cent programme; it will be delivered through the next procurement, because otherwise the current contract would continue. We are looking to finish build under the current programme in December next year, by which time the R100 procurement should have completed and we will be able to roll out the future contract.

Jamie Halcro Johnston: Are you confident that you are meeting the requirements on you to deliver the broadband roll-out?

Carroll Buxton: Under our current contract with BT, we have certainly delivered our contractual target, which was originally 84 per cent of premises across the region. We had set a target of a minimum of 75 per cent coverage in each local authority area, with the exception at the beginning of the contract of the Western Isles; we felt that that target was going to be extremely challenging to meet there, so we set a target of 70 per cent. I think that we actually achieved 78 per cent coverage in the Western Isles. Our highest coverage in a local authority area is Moray, at 92 per cent. Therefore, we have reached all those contractual targets.

The R100 programme is out to procurement. There is no getting away from the fact that the bits that are left to cover are the most challenging, so there is still a big job to do.

Jamie Halcro Johnston: How do you evaluate the work that BT Openreach does? How do you check the roll-out and compare that with the money that goes in?

Carroll Buxton: We use independent checkers. There are a number of independent organisations that check the take-up and the speeds that can be achieved, and we are getting consistently good results against the contractual targets. As we move to R100, which is a more challenging target for 100 per cent coverage, there is a big job to be done.

Jamie Halcro Johnston: You will be aware of Audit Scotland's report on "Superfast broadband for Scotland". The summary of that report states:

> "Community Broadband Scotland (CBS) did not deliver the anticipated benefits for rural community broadband projects. A review of CBS's role found that a lack of specialist skills, poor communication and complex tendering requirements contributed to lengthy delays and failed procurements. Community groups told us this has affected their confidence in the ability of the Scottish

Government and HIE to deliver broadband to rural communities."

How would you respond to that?

Carroll Buxton: As you might anticipate, we would challenge some of that. CBS had an incredibly difficult job to do. Quite a lot of the evidence that came out in the report, and the report findings, underscored the difficulties in the smaller broadband delivery market. In many of the procurements there was not a lot of interest from broadband providers in delivering the projects. I think that we are all aware of some of the bigger projects that faced big challenges in terms of sustainability. In looking at the projects, we always looked at communities that had a sustainable future and that was very difficult in some cases.

The programme was challenging, and we decided that there may be better ways of delivering it. As the new programme comes about, we are looking at aligned interventions and how we might deliver them, but taking on such projects is a huge ask of communities.

Jamie Halcro Johnston: Therefore, you are looking at new ways of rolling out broadband rather than the existing model, particularly for the more remote rural areas in the Highlands and Islands.

Carroll Buxton: We have to be open to other ways. The R100 programme is looking to go as far with fibre as is humanly possible, but in some areas there may have to be alternative solutions—not necessarily delivered by communities, but delivered in a different way.

Charlotte Wright: We try to take an innovative approach and it is worth highlighting that, in doing that, sometimes things do not work out as we would want them to. We found that the process was incredibly complex. You can imagine the reception in a community hall when the discussion starts with the words "procurement" and "state aid". That is not what communities really want to hear from us, and nor does it sound as though we are trying to be helpful when indeed we are. However, as you all know, those are some of the realities that such projects need to deal with.

From that, there is a whole set of lessons learned that we can apply—working with the Scottish Government—to the R100 project and, as Carroll Buxton said, in looking at the aligned interventions. We are acutely conscious that those last hard-to-reach places are, in the main, still parts of the Highlands and Islands. We absolutely agree that it is imperative that they get access to proper broadband and to mobile coverage.

Andy Wightman (Lothian) (Green): In response to a question about the jobs that you have created, you talked about what would have happened without your intervention. Can you say a little bit more about how you do that assessment?

Charlotte Wright: For example, when we work with an account managed company we look at a growth plan with them for investment and other types of support. We work through their set of projections and numbers and determine what their trajectory would be without our support, and then the difference that our support will make in terms of scale or timing, or both and, in particular, the impact on job numbers. Again, we can send that detail to the committee if you would like to see that worked through with some examples that will probably be helpful, so that we have that base case. A project may well still happen without our intervention, but with our intervention it happens either more quickly or at scale, and we can also be clear that there is a direct attribution between the support that we provide and the jobs that we are claiming through our performance measures.

We claim not the whole set of jobs that might be created through a project, but those that can be attributed to our intervention to that project. In some cases, that might be quite specific. A project might have a number of elements, some of which we deem not to need our support, and we might focus on the elements that look at productivity, expanding internationalisation or bringing automation or productivity improvements into a project. Again, if it would be helpful, we could perhaps give you one or two worked examples.

Andy Wightman: That would be helpful, because we have an on-going interest in ensuring that public money is being spent effectively.

In your annual report, you say that you have had six inward investors to the region. Presumably one of those is Liberty House Ltd. What are the other five?

Charlotte Wright: Liberty was from a previous year. I will see whether I can remember them off the top of my head; perhaps my colleagues can look for them while I am doing that. There is Opcapita in Moray, which is a software development company. Aseptium, which is in Inverness, does decontamination of equipment for hospital services.

I will need to look up the rest of the list. They have gone out of my head.

Andy Wightman: That is okay. Are those relatively small companies, with 40 or 50 employees?

Charlotte Wright: They are. Aseptium, which is based on the Inverness campus, has been targeted through the focus that we have for the development of the campus. We put £25 million into the development of the campus to create the infrastructure and conditions for inward investment, particularly in the niche sector of life sciences around medical diagnostics and technology. Aseptium fits that brief exactly.

One of the strengths that we have been able to market for the Inverness campus development is the partnership that we have, particularly with the national health service that is based just across the road. Indeed, the next phase of our development, which will include an elective care centre, will take place on the campus; that will create a facility not only for patients but for research and development. The principle around that is bringing on to the site companies that can derive benefits from working through the partnerships and key assets that we have to offer there.

Andy Wightman: You have talked about hundreds of new jobs for Liberty in Fort William. Are some of those jobs included in the figure of 981 for last year?

Charlotte Wright: No; I think that I am right in saying that they are not for that year.

Carroll Buxton: They are not, because the Liberty project is at a relatively early stage. We will claim jobs only at the stage of putting in direct financial assistance. At the moment, I think that Liberty is forecasting around 400 jobs.

Charlotte Wright: That is still to be determined. We have worked very closely with the Scottish Government and other agencies, particularly Highland Council and others. Our current role is facilitating everything that needs to happen to make the Liberty development work. I live in Fort William, so I am very close to that. There are challenges in getting the skills and the people, and in providing housing. The real challenge for delivering the Liberty project is around attracting the skills base to Fort William without having a detrimental impact on other key businesses in the area that already face some skills challenges.

Andy Wightman: Obviously, inward investors can be from abroad or from the rest of the UK. What assessment do you make of the likelihood that, if you were not to support them, they would go somewhere else, either in Scotland or the UK?

Charlotte Wright: That is an important aspect of what we look at in attracting inward investment. It is important that we attract inward investment nationally, and the key consideration for us and our colleagues in Scottish Enterprise would be landing that project for Scotland. Often, determining what we have that can make a more attractive proposition in Scotland is based around the assets that we have. That might be around our academic base in universities, our skills or indeed our natural capital.

Investment has been made in what is now the UK's only aluminium smelter, and Liberty is an obvious example in which such development can be not only sustained but taken into an added-value manufacturing process. That could help the UK's car manufacturing sector, potentially post-Brexit, by securitising the supply chain and developing a part of the supply chain that currently does not exist in the UK. As a case study, I suppose that that has a number of those key elements.

Angela Constance (Almond Valley) (SNP): My first few questions are principally to Scottish Enterprise. In 2017-18, Scottish Enterprise spent just over £19 million on inclusive growth. That is equivalent to 8 per cent of its total operating expenditure, but why is it spending only 8 per cent, given that inclusive growth is meant to be front and centre in the country's economic strategy?

Charlotte Wright: Sorry, should we leave those questions for Scottish Enterprise?

Angela Constance: Yes. Forgive me.

The Convener: Let us move on to some other questions. I think that that was just an inadvertent slip.

Angela Constance: I will not ask about regional selective assistance then.

How many Highlands and Islands Enterprise account managed companies are led by women?

Charlotte Wright: I have that information in my pack, if you bear with me.

Carroll Buxton: I will maybe waffle while Charlotte Wright finds the figures. We have recently done some analysis of the percentage of women who not only run our account managed businesses and social enterprises but participate in our programmes, and the levels are increasing every year—in most respects, they are at the half way mark now.

In terms of leading and managing businesses and social enterprises, we have much higher figures for women leading at chief executive officer level, for example, in social enterprises rather than businesses. I am looking at my colleagues to see if they have found the detailed figures. They are in the programme stuff, I think. Apologies, there are so many things that—

10:30

Charlotte Wright: Apologies for the delay.

Female ownership of our account managed businesses is 33 per cent. We also have a split for our social enterprises. The number of account managed businesses that have a female chief executive is only 14 per cent, which we recognise is a low number. Interestingly, at 45 per cent, the figure is much higher among social enterprises—you can see the difference between business and social enterprise. I think that that poses some interesting questions. Is there something in the flexibility of working in a social enterprise that is more attractive to or works better for women? That is something that we want to look into.

I can also give you some numbers on the senior leadership positions within those organisations. The gender split looks slightly better, with 48 per cent of senior leadership positions in businesses held by women; again, at 64 per cent, the figure for social enterprises is higher. We have been tracking that, and we have quite a lot of data that sits beneath it.

Angela Constance: I am very aware of the success story of women's representation at a senior level in social enterprises. I am also aware that the Highlands and Islands punches well above its weight in terms of the proportion of social enterprises. Can you say a bit more about some of the programmes and how you support the advancement of senior female leaders in companies that are not social enterprises but which are in key sectors, including growth sectors, in the Highlands and Islands economy?

Charlotte Wright: We are doing a number of things across the board, including working with partners. For example, we have done a number of events with Investing Women. That work involves looking at both sides of the equation: getting women in as investors, and investing in women-led businesses.

We have also worked with Women's Enterprise Scotland, which has delivered a training course for our account managers to improve awareness of some of the gender-specific issues that businesses face.

We are also running a couple of European projects that have a focus on gender balance. There is a northern periphery project that looks at the challenges that are experienced by women starting up businesses in rural and sparsely populated areas—obviously, there is a strong connection there for the Highlands and Islands. That project involves work with partners in countries in the Arctic area—Finland, Sweden and Ireland—which have that predominance of rural and sparsely populated areas.

We also track women's take-up of our business support programmes. The gender split of take-up of those programmes is quite interesting. We have a number of management and leadership programmes where the take-up is pretty well balanced between men and women.

The ones that stand out for me involve mentoring and the use of accelerators. We find that only 35 per cent of those who take up mentoring are women. Again, that poses some interesting questions. I was at a think tank that Women's Enterprise Scotland organised last month—in fact, it had two parallel events, one all women and one all men. We are awaiting the report, but the all-women event had real focus on the importance of mentoring. Looking back at the figures, it is interesting that there still seems to be some in-built challenge to women taking up mentoring as part of our support.

On the use of growth accelerators, we found that the greatest traction for women involved in accelerator programmes was flexibility. In a virtual accelerator that we ran with Entrepreneurial-Spark, there was no requirement, which there often is, to be in a certain location for a certain number of hours; it was more flexible. That met our requirement of reaching some of our more rural areas; it also developed some of the flexibility that women entrepreneurs are obviously looking for.

We have a bit of detail around some of that data, which we could share if that would be helpful.

Angela Constance: It is certainly important not to make any assumptions about the programmes that are likely, or not likely, to appeal to women. The variation between some of your figures is stark, such as the 71 per cent figure for women in relation to the Entrepreneurial-Spark virtual pilot and the 35 per cent figure that relates to women and mentoring.

You have also done some work on childcare pilots. Is that for pre-school children or for children of all ages?

Charlotte Wright: I do not know for sure.

Carroll Buxton: I am fairly certain that it is for children of all ages. Again, that work was based on some of the work that we did on occupational segregation and the reasons why women were not taking up opportunities. Those reasons tended to revolve around caring responsibilities, particularly childcare.

We have done a couple of things. We have one pilot—I think that it is in the Western Isles—that looks at a social enterprise model for childcare. Certainly, in our research into occupation segregation, childcare came through as a significant issue, along with other barriers for women going into the labour market, such as transport in more rural areas.

Charlotte Wright: It is a double hit, because the development of the childcare facility itself quite often creates a social enterprise opportunity for employment, as well as creating the conditions that enable others to take up employment.

Angela Constance: Of course, we also need to get more men into childcare.

This is my final question for this panel, convener, and it follows on from the detailed explanation of what Highlands and Islands Enterprise is doing to improve the gender balance in businesses. We also have the youth employment action plan, the fair work convention and the disability action plan, which is geared towards reducing the disability employment gap, and there are many organisations working to address the underrepresentation of people from our black and minority ethnic communities. Can you tell us about diversity more broadly?

Charlotte Wright: Yes. I am conscious that there is probably a need to do more in some of those areas. It is probably fair to say that the diversity of the Highlands and Islands perhaps creates some of the conditions that we see reflected in our businesses. To be fair, we probably need to do some work in relation to disability.

As an employer, we are taking forward the opportunity to provide employment to care leavers. We know that that is sometimes a challenging area and we feel that, as an employer, we should lead by example, so we are looking at developing that as a case study. We find that, by trialling certain employment practices in our organisation, we can indeed practise what we preach. As I say, there is probably some more work for us to do on some of those areas.

Carroll Buxton: The youth agenda in particular is quite important in our area. We do quite a lot of work on talent attraction and trying to increase opportunities for young people. This year, we have done some research, both through our business panel and as a separate piece of research, to look at young people's aspirations and attitudes and some of the tensions between what employers look at and what young people look at. Young people rank some things as being more important, such as work-life balance, when they are looking for job opportunities.

We are looking at the results of both those pieces of research to see what we can do with our young population. A very positive story is coming through. The numbers of young people who want to stay and work in the region are increasing year on year. We are looking at how we work with our businesses to ensure not only that they offer the types of opportunities that young people are interested in and want to take up, but that they understand what that looks like.

One of the key things to come through is that young people are not always looking for a job for life. They want the opportunity to move around and gain more experience until they decide what they want. For example, the graduate placement programme, which offers a 12 to 18-month placement, has proved very successful in retaining young people in the area, not necessarily in the business where they undertook their placement but in another business in the Highlands and Islands region.

Jackie Baillie (Dumbarton) (Lab): I will ask about things that are perhaps missing from your paper or which are not given much attention in it. There is one small mention of the oil and gas industry. At its height, I believe that the industry led to about 10,000 jobs in the Highlands and Islands area; the number now is about 1,500 at least. I am curious to know why that is not mentioned, given that the oil and industry is still important in Shetland and the Cromarty Firth, and what action you intend to take around the industry.

Charlotte Wright: I guess that that was just a choice when it came to providing a flavour and an overview of our activities, rather than a wish to diminish in any way the importance, both past and present, of oil and gas in the Highlands and Islands. We have invested considerably across the board. Around 150 of our account managed companies are in or provide services to the oil and gas sector.

It is quite difficult to get a firm number—there are no official statistics on a regional basis of employment in oil and gas. However, we have very good connections with employment agencies and estimate that the number of offshore workers in key positions from the Highlands and Islands to be somewhere around 6,000. The industry is therefore pretty critical in terms of employment overall.

There are some exceptions. One significant company that was based in Moray went into administration last year. Overall, however, in the Highlands and Islands, the sector has proved to be quite resilient. I think that that is because it has been able to look at diversification into renewables and other engineering sectors during the oil and gas downturn.

We have supported quite a lot of activity with the 150 account managed companies, particularly in terms of innovation and internationalisation—as you will know, a lot of that oil and gas service work is in high demand overseas. In 2017-18, we provided grant support totalling £2.6 million to 17 companies. We have also seen some successes through working with the Scottish Government and the decommissioning funds. Funding has gone into the fantastic dry dock at Kishorn, which is now drained and available for work, and the development in Shetland of the Dales Voe deep-water decommissioning facility. I forget the name of the platform—is it called Alpha?—that is being decommissioned at the moment, but that is real example of decommissioning taking place in Scotland, in purpose-built facilities in Shetland. We want to capitalise on that.

Of course, if you heard the news this morning, you will know that there is a lot of potential for further gas exploration west of Shetland. Shetland remains very well set up for that. The ports and harbours infrastructure in the Highlands and Islands—we have invested quite heavily in areas such as Scrabster—is standing ready to take advantage of those opportunities.

Jackie Baillie: Will your operating plans reflect that kind of detail going forward?

Charlotte Wright: We are in the planning stage for our next strategic plan, and we have had strategic discussions with our board; we also do an all-staff strategic session. We will take a draft of our plan to the October HIE board meeting and we will look at including sectoral information. There will not be detailed information on every sector in the strategic plan, but we have a set of sector strategies that sit behind it.

Jackie Baillie: The other thing that is missing—I confess that this surprised me—is Brexit. Perhaps you know something that we do not know, but I am assuming that Brexit is happening and that it is happening in Highlands and Islands as well. Was that just a matter of detail? Is Brexit not the biggest single challenge facing our economy over the next year?

Charlotte Wright: Absolutely. I think that we made some reference to such challenges without specifically using the word “Brexit”, but you are absolutely right. If you are asking me what I think is the biggest challenge for the Highlands and Islands, my answer is, without a shadow of a doubt, the people equation. We already have significant challenges across all sectors in all parts of the Highlands and Islands, in relation to not only skills but people. Perhaps the Highlands and Islands are in a slightly different position from the rest of Scotland. Many companies would like the opportunity to get people in and train them. They do not see the acquisition of skills as a difficulty; they see recruitment and retention as significant challenges.

We undertake an on-going business panel survey. We have a panel of 1,000 businesses in the Highlands and Islands, which is a significant proportion of the businesses in the region and representative of the business base. We regularly test the challenges and opportunities around what might be happening. We see that around half those businesses are concerned about skills challenges, and the proportion is even higher in sectors such as tourism and food and drink, which are heavily reliant on migrant workers. Many are looking at productivity investment opportunities to improve their own resilience.

10:45

The business panel gives us very important live feedback from businesses about how they see the challenges day to day. As I say, a lot of the focus is on the availability of talent and people so that businesses can respond to the considerable opportunities that exist, particularly in the sectors that I have mentioned. For example, tourism has enjoyed a couple of bumper years. The Highlands and Islands have been exceptionally busy and we want to build on that opportunity.

Food and drink businesses across the Highlands and Islands—the stars in the sector, such as salmon and whisky, come from the Highlands and Islands—are quite dependent on migrant workers. We have worked with the aquaculture sector, which has some concerns about being able to attract skills and talent.

Planning for the future around Brexit is more difficult for us. We are doing some scenario planning. At the moment, our focus is on making sure that our businesses are resilient and that we focus on opportunities. A lot of that is about what exporting might look like for the future, including exporting to growth economies outwith the European Union.

Jackie Baillie: I have a final short question. HIE’s operation includes community development and support for fragile communities. We have seen you do that work in the past, but what challenges do you face in doing it in the future? How can you instil some of your knowledge in the new south of Scotland enterprise agency?

Charlotte Wright: Strengthening community activity is and remains a core part of what Highlands and Islands does. We split our work into four key priority areas, of which strengthening communities is one. Our board is absolutely supportive of our continuing to give that focus to remote and rural communities. We account manage a set of communities in the way that we would account manage businesses. Clearly, land reform and community ownership of land and assets have been key to what we have done in the Highlands and Islands. There will be no change to our strategic view of working with communities or our approach to inclusive growth to ensure that prosperity reaches all parts of our Highlands and Islands.

I recognise that such work is not without its challenges. We see areas, such as Argyll and the Western Isles, that are losing population. In some areas, that is giving us great cause for concern. However, we have some great numbers—Carroll Buxton quoted some of them—on what young people are saying about their commitment to their area. In parts of the Western Isles, the Uists—which look particularly fragile in terms of population loss—and Argyll, we are working with the local authorities to see how we can give even more focus to our joint efforts to ensure that we create resilience and sustainability in those communities.

John Mason (Glasgow Shettleston) (SNP): To follow up on Jackie Baillie's question, is there a definition of "fragile"? Does it cover everywhere in the Highlands except Inverness?

Charlotte Wright: We include a basket of things in our definition of "fragile", including sparsity of population, distance from a town or service centre and reliance on transport such as ferries. I have probably missed some.

Carroll Buxton: Demographics are also included.

John Mason: Okay. I just wondered whether it is something that you measure. That is fine.

Performance measurement targets have been mentioned. As I understand matters, you comfortably met all your targets for last year. That strikes me as being a little bit unusual. A health board will meet some targets, but not others. The railways will meet some targets, but not others. That is quite normal because they have challenging targets and are not likely to meet them all. Are your targets, therefore, too easy?

Charlotte Wright: We do not feel that the targets are easy: it was a challenge to achieve some of them. We have had exactly the same conversation with the HIE board, which asked exactly the same question, so I assure the committee that we will ensure that we take on board comments about how challenging our targets are.

In the year to date, we have seen some lagging behind in some targets—one being the turnover of supported companies that are derived through internationalising. We find that to be quite a struggle at the moment. At various points in the year, some targets can be quite difficult to achieve, as some are at the moment.

John Mason: Has the HIE board approved this year's targets? Does it give ultimate approval?

Charlotte Wright: Yes.

John Mason: Will the Enterprise and Skills Strategic Board have input at that specific level?

Charlotte Wright: We are working with the strategic board to ensure that the performance measures and targets that we use can contribute, and that the data that we produce can be aggregated for the specific measures that the strategic board needs to track. The governance arrangements remain unchanged in relation to HIE's performance as reported to its board and to our sponsoring department.

John Mason: Does the strategic board just add together what HIE, SE and the south of Scotland enterprise partnership do? It would not come back to you and say, for example, that you need to create more jobs, would it? I understand that the number of jobs created was 981, and the expected range was 700 to 900. You are not expecting that the strategic board will come back and say that you must have 1,000 or 1,200, are you?

Charlotte Wright: The focus of the strategic board will be slightly different, in terms of what it tracks in the performance measures that ultimately focus on improvements in productivity, which is the overriding objective of the strategic board. We are working with the strategic board's analytic unit to make sure that the data on our interventions can be extracted from our systems and can contribute to the coherence of the targets for the strategic board.

John Mason: I am not sure that I am 100 per cent clear. You used the word "track", which suggests quite a passive role for the strategic board. Do you see it being more passive or more active?

Charlotte Wright: I am sure that the strategic board will be very active. What I am trying to articulate is that the board will look at a different set of specific measures; it will not aggregate the measures that we report on individually, but will use a set of measures that it determines to be the important measures for looking at activities, outcomes and impacts. That will make the difference to the overall prize of improving Scotland's productivity performance. I am sorry if that did not come across clearly.

John Mason: That is okay. Thanks.

There is one other area that I want to touch on, following Angela Constance's questions. We got a summary of the gender pay gap report, which was helpful, but some words jumped out at me. It states:

> "HIE is fully supportive of promoting the Scottish business pledge as a voluntary measure."

Later it says:

> "We are supportive of the drive to encourage more businesses to report on the gender pay gap."

It seems to me that those are quite gentle words. Would it be possible for you to say to company X, "If you want help from us you have to sort the gender pay gap, and you have to follow up with the Scottish business pledge"?

Charlotte Wright: The approach that we have taken has been very much about promoting the benefits of equal pay, the gender balance and elements of the fair work agenda through the pledge and other means. We track that information through a set of “ladders” that we use. We have a business-values ladder through which we work with our account managed businesses to determine where they are at the start of their account managed journey and to demonstrate that their journey is progressive. It is true to say that, at the moment, we are working to and supporting the benefits of that approach, rather than looking at any negative or conditionality approach.

John Mason: Okay. One of my colleagues will follow up on that. Thank you very much.

Colin Beattie (Midlothian North and Musselburgh) (SNP): A recent David Hume Institute report highlighted the fact that in 2016-17 Scotland spent more than £1 billion on enterprise and economic development. That is a much larger amount per head than most other parts of the UK. How can we be sure that that spend has improved our economy more than it would if it had been invested in, for example, education or other areas?

Charlotte Wright: That is a very big question. I am sorry, but I am not familiar with the report to which you referred. In terms of the general point, however, that is a key question that we consider. It is also, I guess, part of the agenda for the strategic board. For example, are we deriving the right value and impact from our investment through the enterprise and skills agencies?

I would like to highlight exactly what we are measuring. We have spoken this morning about the role that Highlands and Islands Enterprise has in working with social enterprises and with communities. Our holistic economic development approach is able to demonstrate that social impacts are as important as, for example, a straightforward return-on-investment leverage calculation.

I would be cautious about trying to compare apples and pears without knowing the reference that Colin Beattie mentioned, but our overall strategy—as does Scotland’s economic strategy—gives equal place to inclusive growth. We measure that through our work, from the Highlands’ and Islands’ point of view, in relation to supporting communities and social enterprises, and through working with businesses and investing in infrastructure, which are all components in developing a prosperous economy.

The work that we have done in the past has demonstrated that the long-term nature of some investments has been important. We are, as an agency that has been around for a long time, able to track investment over a long period.

We started off this morning on broadband investment. I suggest that that is one of the most crucial investments that can be made at this time for the economic development of Scotland as a whole, and that the Highlands and Islands must keep pace with that.

Colin Beattie: I referenced that report purely for the purpose of highlighting that £1 billion is a very large sum that is being invested back in the economy. I understand your responses, but I still do not see how you could weigh the current system that you are following against the investment going to an alternative place such as education, which is also so important. A good chunk of that money going there would be transformational. How do you measure whether it might be better to put the money somewhere other than where it goes under the current model, and is that model changing? Is it flexible enough?

Charlotte Wright: As an agency, HIE has a high degree of flexibility within our remit and parameters. To be fair, the decision on whether to invest in enterprise or education is not one that we make. We take the funds that we are given by the Scottish Government and invest them where our remit operates—in businesses, in communities and in infrastructure overall—and we make relative choices as to how we use the funds within those parameters.

I think that the questions that Colin Beattie asks are behind the formation of the strategic board, which will look at the composite work of the enterprise and skills agencies and will ask the bigger questions about how the agencies work together.

Colin Beattie: You have highlighted several times the 981 jobs that have been created. That is a very raw measurement, so I am very interested to know about the quality of the jobs. Are they high-end jobs? Are they shelf stacking or research and development jobs, or something similar? Obviously, I hope that you would have some sort of thrust towards bringing the higher-end jobs into the area.

Charlotte Wright: Yes, I absolutely agree. That is a very important point. We look at jobs particularly in relation to wage rates. We are tracking the wage rates and have set a measure to ensure that the average wage of the jobs that we support is higher than the regional average wage, so that gives us a proxy in terms of quality through pay.

11:00

The jobs that we support are a mix; there are a number in R and D, for example, which tend to be focused in areas such as Inverness, for example. Our requirement and strategic imperative are to make sure that we support all parts of our patch, but there are areas where some types of jobs simply do not exist. There might be support going into areas where there is lower pay, but where the jobs are absolutely critical to the sustainable communities that I spoke about earlier.

We are conscious that there is a mix. Across the Highlands and Islands, we track the average wage in the jobs that we support and the average wage in the subregions. It will perhaps not surprise you to hear that wages in the city of Inverness are higher. Shetland can also attract quite a high wage level—no doubt, that is to do with oil and gas jobs. In the Western Isles and parts of the west Highlands such as north-west Sutherland, wage rates tend to be lower.

Colin Beattie: Do you have the breakdown of the 981 jobs? How many have higher-than-average wages?

Charlotte Wright: I do not have that information to hand, but I am happy to supply it.

Colin Beattie: That would be helpful. It will be interesting to see how the jobs break down.

I will refer again to the David Hume Institute report, although I realise that you do not have it. The report concluded that

“How well firms are managed is strongly associated with their productivity.”

Scotland has relatively low productivity levels compared to other countries, so, should we conclude simply that Scottish companies are badly managed?

Charlotte Wright: We provide a lot of support on management and leadership to account managed businesses because we recognise the importance of those elements to successful businesses. We do a range of leadership development, including for emerging leaders and senior leaders within organisations, so there is a focus on supporting businesses in the management journey overall. It is crucial that we provide that support.

We have also done quite a lot of work on entrepreneurial activity. We support businesses through attendance at the Massachusetts Institute of Technology in Boston, for example, as a flagship of our entrepreneurial support.

Colin Beattie: Do you track growth in productivity and the impact of your support on companies, in terms of driving better productivity?

Carroll Buxton: We certainly do that with businesses that we have helped through our high-end leadership programmes: we look at how those leaders’ businesses are performing. In case studies, we have some very good results from businesses across the patch that feel that they have benefited from engaging in the programmes, which can be seen in the performance and growth of those businesses. Again, I do not have stats to hand, but we could share with the committee some very good case studies from the leadership programmes.

As Charlotte Wright said, some of the developments in our leadership programmes over the past few years are not about just the current leaders but are about the emerging and future leaders, because they are the people who will drive the businesses’ growth in the future.

There have been challenges in our work with our partners in the enterprise and skills system around getting the future leaders coming through the system. How do we tackle challenges in family-owned businesses, succession planning and energising the younger generation? It is about getting people at various stages on that journey.

Colin Beattie: The perfectly correct statement was made that in firms that are well managed productivity improves. Do you see signs of that? Scottish productivity is low, so is there a straight link to bad or poor management?

Charlotte Wright: Maybe that is a fairly binary view. We see supporting management and leadership within the organisation’s capability, as well as looking at its business structures, its approach to investment and its work practices as all being part of a tailored account managed approach. I can say with some confidence that where all that functions well, there will be a good business that is very productive. Investment in the people side of a business, in management development and in the capability of the business, pays dividends in terms of the bottom line. Again, if it would be helpful to demonstrate that through case studies, we can do that.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Apart from Brexit, the increased use of artificial intelligence and automation, or the fourth industrial revolution, is the next big challenge facing our economy. A report in August from the Scottish Council for Development and Industry and the Royal Society of Edinburgh and others, “Automatic… For The People?”, highlighted the fact that more than 800,000 jobs, or around 30 per cent of the total number, are at high risk of automation. What steps is your agency taking to prepare businesses and employees for the challenges of automation?

Charlotte Wright: Our approach is to try to support that investment in automation and productivity. We are working with the Scottish manufacturing advisory service and working on the development of the manufacturing centre of excellence as a great facility to support that investment.

As I mentioned, we have a challenge in skills in the workforce and labour, and improving investment in automation is one of the keys to that challenge. Particularly in food and drink, which is a big sector in the Highlands and Islands, there is definitely scope for greater investment in automation. There are one or two good examples of where that is working, but there are a number of companies that have a journey to go on in that regard. By tracking the investments that are made in our account managed companies, we have noticed that there is a need for a bit more influence and investment to make some of those investments happen. That probably goes back to the confidence question that we spoke about earlier, which we track through our business panel survey.

Gordon MacDonald: You mentioned the skills challenge. If we have the skills shortages that you suggest, is there a need to tie business support to a condition that employers increase their expenditure on in-work learning, so that there is a bit of conditionality attached to business support?

Charlotte Wright: As I referenced earlier, our approach has been about incentivising and about positive benefits rather than conditionality. Obviously, we work closely with our partner, Skills Development Scotland, on modern apprenticeships, for example, and we have supported in-work training through direct support for companies.

Gordon MacDonald: To ensure that Scotland is a front runner in the fourth industrial revolution, what is your agency doing to bring together the private sector, the public sector and Government agencies to work collaboratively to take advantage of the challenge that is facing us?

Charlotte Wright: The Scottish Government has set up a leadership group, which is chaired by the Cabinet Secretary for Finance, Economy and Fair Work, to do exactly what you say: to bring together the agencies and skills agencies to focus on delivering the potential through the manufacturing centre of excellence and supporting the overall approach. It is early days for that, but there is a very clear focus on being able to take advantage of the substantial opportunities that are open to Scotland. We feel that there is a degree of underinvestment in companies in the Highlands and Islands, so we see it as our role to support them to make that investment and to use our funds to leverage their investment for the future. The great incentive is the fact that, if a cheap labour supply is not available, that opens the door for that conversation perhaps more than it might have done in the past. There is an absolute imperative to do that.

Gordon MacDonald: My last point is that the report that I referenced earlier states that Scotland lacks strategic leadership for the fourth industrial revolution. Is that a fair criticism?

Charlotte Wright: I think that that leadership probably needs to come from business. There is nothing better than seeing a successful business leading the way and using it as a leadership model. As public sector agencies, we can provide the support and the development, but a lot of that leadership comes from the business community itself. It is our job to support that and take those great examples and use them to demonstrate the benefits and approach to other companies.

The Convener: Thank you very much. That concludes the first session. We will break and go to private session for a few minutes to allow a changeover of witnesses.

11:10

Meeting suspended.

11:14

On resuming—

The Convener: We now have with us a panel from Scottish Enterprise: Iain Scott, chief financial officer; Steve Dunlop, chief executive; and Linda Hanna, managing director for strategy and sectors. Welcome to all three of you. We will start with questions from Andy Wightman.

Andy Wightman: Welcome. In 2017-18, you created 8,500 jobs through the attraction of inward investment. Is that the total job creation, or were there other areas in which you created jobs?

Linda Hanna (Scottish Enterprise): That is the planned number of inward investment jobs that we have captured in all the conversations that we had with companies, but we estimate that, with the support that we provide, based on our evaluation and all our research evidence, over the next three years that number could be much greater in the wider, indirect impact on the economy. I am happy to provide those figures to you if that would be helpful.

Andy Wightman: We heard earlier from Highlands and Islands Enterprise about how it analysed the additionality that its support for jobs provides. Presumably, you undertake a similar exercise, or is what you do slightly different?

Linda Hanna: We do a similar exercise. We do that at a couple of levels. When we work with an individual company, we talk to it about its growth plans. We baseline its current position with employment. We talk to it about the plans that we are working on with it and the impact that they would have. Then we work with it over a period of time. We do that at the individual level. In a project that we support with something such as RSA, we look at job numbers and the quality of those jobs. We also look at it through our evaluation and evidence work. For example, last year we evaluated our inward investment activity and our exporting activity, which I think we shared with the committee. We then do an evaluation to see what happened, part of which involves ensuring that it was the direct result of what we did and not just something that would have happened anyway.

Andy Wightman: In your business plan, you commit to tracking progress in a number of areas including

"Outcomes achieved in areas of disadvantage ... Number of social enterprises, employee-owned companies and co-operatives supported"

and number of companies

"Investing in youth"

or

"Playing an active role in the community".

Where did those measures come from? Why were you not looking at some of those areas before, or were you? Could you say a little bit more about the significance that you attach to them?

Iain Scott (Scottish Enterprise): We have certainly increased our focus in those areas over the past few years. Since our focus was pushed towards inclusive growth a number of years ago, we have been trying to build up the type of evidence that we want to review in that area. We are tracking those measures for the current year and we will be able to report on them towards the tail end of the year.

Linda Hanna: Our sense is that we have been doing some of this for some time, but I think that we would all agree, and all the evidence about productivity suggests, that we need to do much more on how we generate inclusive growth and how that growth is spread. One of the things that we have learned over the years is that by introducing tracking measures we can learn what works in certain areas and certain circumstances and then look at how we can roll that out to put some specific targets behind it and make sure that we focus on it.

This year, we have, as you described, set out a group of tracking measures in our business plan to help us to capture that data and use it much more actively—not just the individual elements but how they sit together—in our conversations with companies. We have already been doing that this year. We do it across the characteristics of the Scottish business pledge for our account management portfolio. We are looking at that in relation to specific things such as youth and in particular areas. In this year's work, we will be looking to share it with the Scottish Government and the strategic board partners and make sure that we use it as we develop our plan for next year for Scottish Enterprise.

Andy Wightman: Is it fair to say that some of this is brand new for you?

Linda Hanna: I would not say that it is all brand new, but there is a greater focus on it and there is a greater understanding of how things work together.

Andy Wightman: Your grant in aid has fallen by 27 per cent in real terms since 2008-09, but you have also had increasing income from other sources. What has that meant for your ability to deliver your statutory obligations?

Iain Scott: Things have changed quite significantly over that decade. In the early part of it we saw a decline in our funding, but in the past few years that has levelled out, and we are pleased with the increase that we got from the Government last year. The funding allocation was up from about £280 million to £289 million and we have augmented that with other income, as you say. Over the period, we have had to prioritise where we invest those resources and we will continue to do that. Should those numbers continue to increase, we have a strong pipeline of other activities that we can use those resources for.

Andy Wightman: A significant part of the new resources has been financial transactions.

Iain Scott: Yes, that is right.

Andy Wightman: What are your views on how that should be invested, lent or spent—whatever the appropriate word is?

Iain Scott: For a number of years, we have had the Scottish Investment Bank as part of our operations. In previous years, we funded that through capital funding, but the nature of the activity lends itself very much to financial transactions funding, given that that is restricted to loans or equity investments. Over the past three years, that has increased from about £14 million to £45 million and last year to £88 million. Our activity in that area is more about the £55 million to £60 million for the Scottish Investment Bank activity, so we are now looking at using those financial transactions for other areas within the organisation, but we have been able to utilise the majority of that through our direct investment function within the organisation.

Steve Dunlop (Scottish Enterprise): Financial transactions money lends us a huge opportunity to partner in a different way from how we have in the past. As we look forward to long-standing strategic relationships with universities, local authorities and so on, financial transactions money will become much more useful in the future. We are in the process of spending that but also understanding how we get absolute best value and strategic output from it in future.

Andy Wightman: Finally, I have a question about Russia. You note in your annual report that you have closed the office in Moscow and it was apparent earlier this year that plans to develop £5 million trade links with Russia have been put on ice because of political developments. What impact has that had on long-standing trade in things such as Harris tweed, on which a lot of work was undertaken?

Iain Scott: I do not know the specifics of the impact on trade, but I know that we are still servicing that region; it is just that we are doing it out of our Nordic office as opposed to an office in Moscow. We had two permanent staff there, but we are now servicing the region from a different area. We are still encouraging organisations to export to the region and supporting them in doing so.

Andy Wightman: You are doing as much as you were before, just administratively differently,

Iain Scott: We are certainly doing it administratively differently. We are supporting organisations in the same way as we have done in the past. I do not have any statistics as to how much is going there, but we can get those figures for you. I am sure that we and Scottish Development International have them.

Steve Dunlop: We are happy to do that. We will continually review which markets and which countries we are in in order to get value for money. We want to measure performance in each of those areas and demonstrate that those are working for us. We ought to consider alternative methods if they can yield just as much or better. That is something that we can keep you very close to as we move forward.

Angela Constance: You will have gathered that I am interested in how we actively demonstrate inclusive growth and the role of RSA in that. In 2017-18, you invested just over £19 million in inclusive growth, which represents 8 per cent of your operating expenditure. Why only 8 per cent?

Iain Scott: You will see in this year's business plan that we have recognised that the four headings that we were previously using were not adequate to show what we do on inclusive growth. We split the analysis of our expenditure over internationalisation, innovation, investment and inclusive growth, but you will know well that the work that we do on internationalisation, innovation and investment very much contributes to inclusive growth. We have recognised that, and we have set out our business plan for 2018-19 to show that all of that is contributing. The figures are a function of the way that we split our business plan headings, but it is not a fair reflection to say that we spent £19 million in that area—far from it.

Angela Constance: Is RSA the main component of your inclusive growth investments?

Iain Scott: Linda Hanna may talk about some other areas, but as far as the expenditure levels are concerned—it is about £10 million or £11 million for the job-related RSA; we do other stuff related to capital investment—it is very much the biggest element. There is probably more going on now with the work that we are doing with companies on workforce innovation, albeit not at the same level of expenditure.

Linda Hanna: We certainly have seen a shift in Scottish Enterprise and this year's business plan reflects that it is all about inclusive growth. We will make sure that inclusive growth is absolutely embedded in in all the conversations that we have with companies at a sectoral level and with our partners. RSA is often delivered through large grants or is seen as being delivered through large grants and can look like the biggest component, but we are now in a place where absolutely everything that we do concerns inclusive growth.

When we look at approvals, we ask how they will contribute to inclusive growth. Part of that can be about the people who would be involved in the companies, if it is a company project, or about the supply chain or community benefit clauses, what projects are doing about CO2, and so on. RSA would be the biggest headline number, but we are now baking inclusive growth into absolutely everything that we do.

Angela Constance: Is there a danger that there is an assumption that RSA investment automatically equates to inclusive growth when, as you have indicated, we need to consider where the investment is, who benefits from it, what impact it will have on the supply chain and so on?

Linda Hanna: You are right. There is no one tool that is going to be solely about inclusive growth. What we have tried to do is make sure that inclusive growth is in every conversation that we have. We have had changes in the RSA scheme and we have a focus on driving innovation in the economy—through R and D grants, for example. When we talk to a company about investing in research and development, we have the same conversations, which are about how the investment will drive that company forward, what types of activities it will be undertaking, what types of jobs will be created and what the investment will mean for the supply chain. We ask how we can work with it on that and we ask whether we need to work with groups of companies to help them take advantage of investment. All the work that we do now is about making sure that we drive that forward.

We need to do more to raise awareness and use case studies and stories about the investments that we make and highlight the work that is happening at the sectoral level. Previously we told the committee about the sector productivity plans, in which industries have been looking at how they could push productivity forward. A lot of that is about inclusive growth and the types of things that industries are doing to respond to the changes in jobs, markets, processes and technologies.

There is a much broader group of things. I agree that we need to make sure that it does not become just about one scheme.

Angela Constance: How is inclusive growth explicitly connected to your performance targets? I am driving at the fact that it is very easy to use inclusive growth as a soundbite and say it is integral to everything. I know that you have inclusive growth performance targets for things such as developing leadership through SE support and increasing capacity to create internationally competitive early stage ventures, but will you talk about the threads that actively demonstrate the link between inclusive growth and your performance targets?

Linda Hanna: We have a range of performance targets in our business plan, and this year we have simplified those down to six, to make them clearer and more specific. I mentioned R and D. If we are looking at supporting a company on R and D, we will explicitly have a conversation with it about what it will be doing. We will talk to it about the Scottish business pledge, and elements within it such as the living wage, not using exploitative zero-hours contracts and how the company deals with suppliers. If it is a project that will, for example, help companies to adopt industry 4.0, we will talk to it about the skills element and whether it is talking to local schools and colleges.

There is an element in all of this that is really direct, in terms of our advice and financial support, but part of it is about how we connect companies much more with the community and the wider aspects that will start to generate inclusive growth. For each of our performance measures, those types of conversations are on-going with companies or our partners, particularly in the sectoral work that we do. I am happy to share that with you and maybe give you some examples of what that looks like.

11:30

Angela Constance: Examples would be helpful, thank you.

Promoting inclusive growth means addressing economic inequalities, particularly at a regional level and between regions. Scotland is a small country and its various local economies have very different challenges and needs. Can Scottish Enterprise demonstrate where foreign direct investment, for example, is being attracted? I accept the points made in your written submissions that some of this is about expansion as opposed to brand new investments. Are endeavours targeted at specific local areas that have the highest employment gaps?

Steve Dunlop: We can clearly evidence where those FDI inward investments are going. We can share all that detail.

On your point about the extent to which we can begin to target inward investment into areas that would most benefit from it, we are moving into much deeper partnerships with local authorities through regional economic partnerships. I would anticipate that in the near future we will have, as a result of that, inward investment prospectuses for all the regions that add up to something that Scotland can sell internationally under the "Scotland is now" banner. What you will see emerge from each of the regional partnerships—we already have them in many areas—are very clear investable propositions. They will very clearly offer global investors what is available here in Scotland nationally and regionally, and I think that that will aid the situation greatly.

Angela Constance: The panel will have heard me ask Highlands and Islands Enterprise about how it is contributing not just to closing the gender pay gap and the work on underrepresentation of women in particular sectors, but, more broadly, to the fair work agenda—specifically the disability action plan and the disability employment gap. I would be interested to know what Scottish Enterprise's gender pay gap is, given that Highlands and Islands Enterprise supplied that information to the committee.

Iain Scott: The latest reported figure that we have for Scottish Enterprise is 14.7 per cent in 2017. That has come down from 17.6 per cent in 2015 and 18.8 per cent in 2013, so we are making progress in that area. Clearly, however, there is some work to be done on that.

Angela Constance: Good. As a public sector agency, what contribution are you making to, for example, reducing the disability employment gap?

Linda Hanna: Diversity is something that we do not do enough of, if I am honest, and we need to do more of it. We have been looking at how we do that and how to make it much more pervasive in what we do. You will know that we do a lot around youth. You might know that we have been looking at women: we have been tracking the number of female-led businesses that we work with and we have been introducing a couple of new programmes for engaging directly with women.

We are absolutely listening to the feedback that the important thing is not just the type of business support, but how that is designed for to engage with women. We have looked at international examples of that, and we are doing more on it.

We are not doing enough in disadvantaged and disabled areas and we know that we need to do more. We have recent examples of working with large and small inward investors on how we can support them to do that, how we can connect them to the people who have that expertise in the community, how we can help them to identify people with the skills that they are looking for and how they might need to support those people. We have some case studies on that, but we know that we need to do more.

Steve Dunlop: We will share with you the detail on our inward investment with Barclays that is very explicitly going to target 340 new jobs for disadvantaged and disabled recruitment in a specific area. We would like to use that as a case study and amplify the benefits that come from that. As Linda Hanna said, it is an area that we will be focusing on, going forward.

The Convener: On disability, are you able to give concrete figures to indicate what success you have had thus far? I appreciate that you say that you need to do better, but can you provide not just case studies but concrete figures that show what you have accomplished in that area?

Linda Hanna: We do not have that information in front of us, but we will make sure that we give you that when we provide the case studies.

The Convener: Thank you very much.

Jackie Baillie: I will return to money. Let me explore with you the notion that somehow you have a lot more resources. Having studied the tables going back to 2008 and up to even the most recent years, I see that in fact your core grant has either gone down or stayed relatively the same—the cash has been more or less flat. The difference has been in the financial transaction money, which accounts for about a third of your budget. Would that be a correct interpretation of the tables that I have in front of me?

Iain Scott: I am sure that it is. I do not have sight of those tables, so I cannot comment.

Jackie Baillie: Earlier you said that the budget had increased quite significantly in the past few years. That is not our experience of your core budget but, of course, the financial transaction money, which is a recent development, has made up the difference—by and large.

Iain Scott: Yes. I am taking financial transactions to be part of our core budget. I see that coming through as grant-in-aid.

Jackie Baillie: But it is not unrestricted; it is for a particular purpose, so you need to use it for that purpose. Not having the flexibility is not good with your core budget diminishing. That is the point that I am trying to make.

Iain Scott: You could say the same about our resource budget or our capital budget, which are for certain types of activity as well.

Jackie Baillie: Can I move on now to the financial transaction money? This year, there have been underspends of £13 million. I understand that, next year, a greater proportion of your grant is likely to be in financial transaction money. How did the underspends arise? Are you confident that you will be able to spend it all next year, given that the amount is increasing?

Iain Scott: As I think you will see from the accounts where you picked up the £13 million figure, £10 million of it was for one specific programme, which was the Scottish European growth fund—I think that is its name; I am sorry if I have not got the words right, but we have quite a long acronym for it. That is a very innovative programme that we put together, working with the European Investment Fund, which would match the £50 million that the Scottish Government would put in over a number of years and then match that amount again through the investors that the European Investment Fund could bring, taking us up to at least £200 million of investment.

The programme has not progressed to the timescales that we originally envisaged—we were looking at £10 million in year 1, then £20 million and £20 million. The pipeline is there but the number of deals that we expected has not come through. We are working hard to continue to deliver that. The Government is committed to the £50 million, over more than the three years that were originally envisaged. We hope to utilise those funds in due course.

Jackie Baillie: Correct me if I am wrong, but that was not announced just in the last programme for government; it was in the one before.

Iain Scott: Yes. It was not the one in September 2018, but the previous one.

Jackie Baillie: The one before. Can you tell me how much of that sum has actually been allocated and to how many companies?

Iain Scott: I think that one or possibly two deals have been done. I think that one deal has been done since the beginning of this financial year, because none were done last financial year, which is why the £10 million was not utilised last year. The overall value of that will be about £1 million, but I do not know the precise figure.

Jackie Baillie: It is a very tiny amount out of what was envisaged. What is the target for this year and next?

Iain Scott: We have set ourselves a figure of £20 million for this year. The pipeline is there. I admit that we are under a bit of pressure at the moment and we are talking to the Government about whether those funds can be used for other activity this year. We still have to bottom out what will happen with that, so we may not do the £20 million that was in there.

Jackie Baillie: You can understand our concern. One deal of £1 million out of the substantial pot that was promised so much earlier does not suggest to me that the programme has been particularly successful.

Iain Scott: I will not comment on the success but you will appreciate that that particular fund is for low-volume, high-value investments. I think that the plan was to average about £2 million a time, for each investment, so we are looking for 10 investments to get up to that £20 million level.

Steve Dunlop: I acknowledge that it is a real challenge—it is a stretch for the organisation. We have been reporting into our board, so there is complete visibility in the organisation. I take this very seriously and I am marshalling all our resources to try to execute against what Iain Scott says is the positive pipeline that is there, but this is quite a shift for us, and I see cranking up the machine to get those wider, deeper strategic partnerships as the way to deliver that. We recognise the challenge—we see it—but I would like to give you some confidence that we are trying to address it.

Jackie Baillie: Is there not an expectation that you will sell land and assets during the course of any given financial year and that that contributes to—or at least the Government thinks it contributes to—how you operate? Do you have a figure for 2018-19 and 2019-20? Do you anticipate a receipt from the planned Iconic Leisure development? Of how much?

Iain Scott: As I am sure you are well aware, the latter is in the early planning stages. A planning application has been put in to the national park authority and I am not certain what the timescales for the planning exercise, never mind the sale of the land, will be. I know that we will have the option to decide on the deal should Iconic Leisure get the planning permission that it is looking for and want to continue with the deal.

Jackie Baillie: So you do not have an estimate of how much you think will be realised. Surely you have a forecast in your accounts.

Iain Scott: We forecast our property sales in general terms. The first part of your question was about how much we are anticipating for this year. I think that that is detailed in our business plan but, in total, property sales and income from property come to about £18.6 million—our business plan shows property disposals of £14 million and property income of £4.6 million. I believe that the value of the Iconic Leisure one is in the low millions—£1 million or possibly £2 million, from memory. I can confirm the value that we put on the land in last year's accounts, but I do not have that in front of me now.

Jackie Baillie: That would be very helpful. Thank you.

Dean Lockhart (Mid Scotland and Fife) (Con): I will follow up on Jackie Baillie's question about the European Investment Fund. I understand that that is part of the Scottish growth scheme, which was announced two years ago as a £500 million package of loans and guarantees for Scottish business, but I understand that no loans have been issued under the scheme. It is now an equity investment programme. There is some co-investment between Scottish Enterprise and private equity fund managers, but the terms are set by the private equity fund managers. Can you give us a bit of background about why that programme changed so significantly from a programme of loans to a programme that is, in effect, an equity investment programme run by private equity funds?

Iain Scott: I can talk about the European side of that, but that is just one element of the Scottish growth scheme, which has loans in it as well. I think that the Scottish growth fund is part of that and has loans as part of it. The element that we developed, through the European side, did not change in its formation. It was always deemed to be equity-type investment from when we formed it just over a year ago.

Dean Lockhart: Of the £500 million headline number that was announced, how much has been allocated so far? Do you have that number?

Iain Scott: I do not have the number in total for the £500 million. I do not think that we are responsible for the full £500 million in there, but £200 million relates to the European fund that I explained earlier was £50 million from Government matched by £50 million from Europe and another £100 million at least—and probably more than that—from the equity investors.

11:45

Dean Lockhart: Do you have a timeline for when that £200 million might be utilised? How does that match the pipeline that you are seeing coming down the track?

Iain Scott: My answer is similar to my answer to Jackie Baillie. Originally, we envisaged that the £50 million that we were putting in would be £10 million then £20 million and £20 million. However, I think that it will take significantly longer than that—by a number of years. I do not know exactly when it will be. We are at the early stages. There is some pipeline and, I think, one deal—possibly two—has been done.

Dean Lockhart: Will you flesh that out a bit? What are the main obstacles to matching the pipeline with the funding? Is there an organisational issue or a funding issue, or is the pipeline not appropriate?

Iain Scott: We are trying to generate the pipeline for the equity investors in the European Investment Fund. They are putting the majority of the money in, so they need to consider the cases that are being brought forward. We are generating the pipeline for them, but that has not seen its way through into actual deals yet. We are working with them to try to deliver on those. I do not see any reason why it would not happen, but it is just taking longer to do.

John Mason: I do not know if you were listening to my questions to HIE but this is a very similar one, namely on performance measurement targets. I see that in your report there are lots of little green triangles, which I think are positive and mean that you have either matched or exceeded your targets. As with HIE, I suppose that it surprises me a little bit. We do not really expect other organisations, such as the railways and the health service, to meet all their targets; we expect them to achieve some and miss a few—that is normal. Does it suggest that your targets are too easy, if you have met them all?

Iain Scott: The answer is similar to the one that I heard from Highlands and Islands Enterprise and we have had the same discussion with our board and our previous chairman a number of times. If you asked any of the individuals in our organisation who are trying to deliver on those targets, they would definitely not agree that they are easy. If you look at the previous business plan, you will see the targets increasing year on year—for this year there is a significant increase in a number of areas, particularly on the innovation side. We track them through the year and, albeit that we finally achieved them last year, up until about month 10, I think, we were forecasting that we would not do so in at least one area and probably two areas—the inward investment jobs goal was not looking very good at one point.

This year, we are in a similar position; we are under a lot of pressure to try to deliver on them—there is one target for this year that we are currently forecasting we will not achieve, but we are putting extra effort in to be able to do so. A lot of work goes into achieving these targets.

John Mason: So, up until now, your board has approved them; there has not been Government input into the specifics of targets and so on.

Iain Scott: Yes, other than the Government agreeing the overall plan that we put forward to it before we publish it at the beginning of every year, it has no direct input other than to say that it is happy with the overall level and the overall plan that we are putting together. Like at HIE, at Scottish Enterprise the governance stays with us, as far as I know.

John Mason: You are reviewing how you do things but the big change will be the strategic board coming in. How will it relate to you in setting the plan and the performance targets? Will it have a direct or indirect input? How will all that work?

Steve Dunlop: We sit on the strategic board—the chairman of Scottish Enterprise, along with the chairpersons of other organisations, is part of the board. What you heard from Charlotte Wright on the previous panel is that it will set new ambitions for the economic system through that collection, or family, of organisations coming together to act much more cohesively and by binding the organisations together with strategic targets—four pillars—that you will see at the end of October. Some of the new targets will be more specific than others; and some will be longer term—some will have 20-year horizons—and some will be much shorter. They are being created, formed, shaped, influenced and challenged by multiple different bodies and, ultimately, will flow into the operating plans of each of the agencies. So the board will have a strategic, shaping, direction-of-travel influence and then the boards in each of the organisations will go into their budget-planning cycle and respond accordingly, which is what we will do. Highlands and Islands Enterprise said that it will be having a draft attempt at next year’s plan at the end of the October and we will be doing the same.

John Mason: You used the word “strategic” there, which is fine; that is the bigger picture. You also said that in some areas it will be more specific. I do not know if you can tell me this at the moment, but if we take something like jobs, which tends to be something that we are interested in, would the strategic board go as far as setting a target for new jobs for the whole of Scotland, which would then be subdivided between HIE and yourselves, or will it not get into that specific level of detail?

Steve Dunlop: I do not think that it will get into that granular detail. The example that I will give you is exporting. We know that our foreign direct investment over recent years has been very good, but we need to begin to focus on exporting because we can do much better. Some emerging targets will come from the strategic board about where we, as a collective system, want to aim in relation to export targets and then that is something that we will do as individual bodies, but trying to bring along the private sector as well. So we will have indicative, high-level targets that we collectively feel are achievable and then we will go away and work out a lot of the detail, having been part of the creation of the targets in the first instance.

John Mason: Again you may not be able to answer this, but if we said that maybe companies in your area are bigger and more used to exporting than those in the Highlands and Islands area, would you expect that when the overall picture is being split you might take proportionately more of the share and try to get Scottish Enterprise companies exporting more, or would what HIE thought it could do be entirely up to it and what you thought you could do be up to you?

Steve Dunlop: In relation to exporting, we have Scottish Development International, which we lead on but which is a partnership between Highlands and Islands, ourselves, Government and the emerging South of Scotland agency. Targets will be set for each area and for Scotland overall and that part of the organisation will try to drive collective targets. To go back to individual prospectuses for each region, there are specific action plans in each area with specific targets, so it goes from a very high level down to a granular level. We will be able to give you some of that detail if that would help.

John Mason: That is great. Thank you.

Colin Beattie: I will ask you similar questions to those that I asked the previous panel. The David Hume Institute report highlighted that, in 2016-17, Scotland spent more than £1 billion on enterprise and economic development, which is a much larger sum per head than in most other parts of the UK. How can we be sure that that money is being spent on improving our economy? How can we prove that investing it in other areas where it would also have an impact on our economy, such as education, would not be a better route?

Steve Dunlop: My response is similar to Charlotte Wright's. It is a matter for Government where it places its resources in order to have the biggest impact on economic growth. Maybe Linda Hanna can go into detail, but as someone who has worked across economic development over a long period of time and worked south of the border, I know that there was a great deal of pain felt when the enterprise companies in that part of the world were taken away, so there is no question in my mind that stopping an enterprise agency has an impact. At a tactical level, when we are landing inward investment, such as a Barclays or foreign direct investment, the question is, if it was not for us, who would it be? Very often the information that comes back is that the deals attracting such businesses would not have happened without intervention and without people selling what Scotland has to offer. That is not just financial resource; it is the skills package and what other support can be provided.

Let us not forget that trying to attract inward investment is a very competitive business. Every country in the world is trying to attract companies that will invest in and create jobs for the country. If you do not have something like an enterprise network, you would need something else. I would respond positively and say the answer is absolutely, yes, we should be spending money to attract and grow our economy through foreign direct investment as well as what we do domestically. All the evidence that we gather says that the impact that we have makes a difference.

Colin Beattie: Are we spending the right amount of money?

Steve Dunlop: I would like to spend five times the amount—if you can help, that would be great. We will spend the money. We will live within the means that are given to us. We accept that money is tight across the whole economy and that that will always be the case. We will gratefully receive whatever Government wants to allocate to us. Our job is to make every pound count, and to do so in a collaborative way with our family of agencies, which is where the strategic boards are beginning to make a big impact. We will need to respond to all the economic challenges that are coming our way; businesses need to be able to respond to the economic challenges but also the economic opportunities. As we heard earlier, we are in very uncertain times. I have a sense that Scotland has not needed Scottish Enterprise more than it needs it today—you would not be surprised to hear me say that, as I am an advocate for the enterprise system. I think that it is working well and, if you could find some more money for me, I would be delighted.

Colin Beattie: One of the measures of how the economy is being improved is jobs because, at the end of the day, that is what it is all about. The quality of the jobs is extremely important and you have differentiated in that regard by showing that close to 40 per cent of the jobs created are high value added. Define "high value added".

Steve Dunlop: There is a specific financial benchmark which, from memory, I think is jobs with salaries above £38,000. That is a financial target but, fundamentally, below that we are for more and better jobs. We want more jobs and better jobs in as many places as possible, but there is a specific benchmark for jobs to qualify as HVA.

Colin Beattie: Is it purely monetary?

Steve Dunlop: I do not know whether it is purely monetary, but that is one aspect of it.

Iain Scott: The internationally recognised level for that is a percentage above the average wage rates. I cannot recall what that is—I do not know whether the SDI colleagues could help us with that—but that is the accepted methodology at the moment.

Colin Beattie: Let me move on to a question on productivity. Scotland has relatively low productivity levels in comparison with other countries. The David Hume Institute report concluded:

> "How well firms are managed is strongly associated with their productivity."

First, do you agree with that? Secondly, if that is true and we have such low productivity, does that mean that our companies are not particularly well managed?

Steve Dunlop: I do not think that we would challenge the findings, which correlate with our own. There are many Scottish businesses that are managed fantastically and they are cutting edge and doing really well, but there are a lot that are not following that trend. That is why we invest heavily in leadership and management across Scotland. Linda Hanna will correct me if I am wrong, but I think that about £7 million is targeted towards that area. There is no doubt that we need to be more competitive and, in order to be more competitive, we need to be more productive and, as part of being more productive, we need to invest more in our people and our research and development and export more. We are in a very competitive global market. We need to look out and find who is best and try to emulate or exceed that. There is no doubt that productivity is a big challenge for us.

Colin Beattie: Given the linkage between managerial ability and productivity, what are you doing to improve management skills in Scotland?

Steve Dunlop: We invest heavily in that area and we offer multiple products and services, but I will let Linda Hanna give you a couple of specifics.

Linda Hanna: As Steve Dunlop said, we invest heavily in leadership and management and we do not do that alone. We make sure that we work with other actors in that space, particularly Remarkable and Investors in People Scotland. We have worked very closely with the University of Strathclyde on the fair work agenda and understanding what some of those practices look like. We will work with a company looking at what its leadership capability currently is and talking to it about what it needs to do for the future. That might be specifically about generic leadership skills or it could be about helping it understand from a leadership perspective what is going on in its market, what the industry changes are, what the technology needs to look like and how it is going to cope with that in the workplace.

A big part of what we do with the Scottish manufacturing advisory service is about leadership and management skills, the shift that companies need to make in adopting new technology, how they are going to use the data that comes out of quite a lot of the changes that they have in either new pieces of kit or the kind of reports that they are getting, and then how they drive productivity improvements in the workforce and how they manage the logistics of the supply chain. We do that at various levels and we have various programmes that do that, but we also make sure that, in the work that we are doing at an industry level, we support and enable others to do that. The food and drink productivity action plan has very clear elements for supporting management and leadership. Charlotte Wright mentioned earlier the national manufacturing institute leadership group. James Withers is on that to make the link to the food and drink industry and how we support it and help many of the leaders understand the changes that they might need to make to be able to respond to and keep ahead of what is coming in their industry.

12:00

Gordon MacDonald: You were here for the earlier evidence session when I asked HIE about automation and I am going to ask similar questions. What research has Scottish Enterprise undertaken to understand the opportunities and reforms that are needed to take advantage of automation?

Linda Hanna: We have done quite a lot work, which we do not do alone. We do it with the industry leadership groups and, in the case of the industry 4.0, we have done a lot of research with manufacturing and digital research looking at what is going on around the world, the industrial strategy and the research that is being done at the UK level. We have begged, borrowed and stolen what already exists, looked at what we already have in Scotland and then looked at where we have opportunities for the capability we have and where there are gaps. We have looked at that across the piece. A lot of that fed into the manufacturing action plan that the Scottish Government announced in 2016 and we do two things around that. The manufacturing action plan is about helping industry to respond.

We deliver a big leadership dimension through SMAS and there is a big piece in that about the circular economy. We do a lot about skills. It is about driving demand from companies to say, "This is an issue and we need some support," and, "This is an opportunity and we need some support." I chair the public sector partners that are involved in making that manufacturing action plan happen. That includes partners at a UK level, such as Innovate UK, as well as our partners in Scotland.

As Charlotte Wright was talking about, we are now accelerating towards creating the national manufacturing institute for the whole of Scotland. Although the centre will be based in Inchinnan, we are looking at how it is going to connect right across Scotland both on what I was going to call the harder side—technology—and absolutely on the skills side. We are working very hard to make sure that it connects to lots of colleges but also that it gets out into schools; in particular, we are supporting primary engineer so that we can ramp that up right across Scotland. We have done a lot in understanding what is needed and following that through.

On the other side of the equation—the digital piece, the internet of things, and helping companies think about the opportunity in data and digital technologies—we are investing heavily with our partners. The announcement that is happening in Edinburgh today about 100,000 data scientists and data-driven innovation in Edinburgh is something that we are very closely involved in. We need to support and work with that, and we are investing in the Edinburgh BioQuarter and the application of that in health around the Usher institute of population health sciences and informatics and other things. We need to make sure that we take that out into food and drink, tourism and the other industries, and we are doing that very actively at the moment. I can give you lots of examples of that if it would be helpful.

Gordon MacDonald: In your business plan you refer only once to automation and that relates to high value manufacturing—it says that you will

"help put Scotland's manufacturers at the forefront of digital technology and automation"—

but the "Automatic... For The People?" report highlights 20 different areas of the Scottish economy that could be impacted by automation. In transportation and storage, 56 per cent of jobs could be at risk. In wholesale and retail, 44 per cent of jobs could be at risk. What are you doing for a whole range of business areas rather than just manufacturing?

Linda Hanna: Other than manufacturing, the piece that we are looking at in the digital economy is understanding how technology applies right across our sectors.

Gordon MacDonald: But also automation.

Linda Hanna: Yes, absolutely; we are looking at how we use technology and automation across industry sectors. Scotland's economy is very diverse, and that is one of the benefits that gives us resilience, but it also means that we need to help on many fronts to respond to some of these things. For example, we are doing work with tourism on automation and thinking about tourism companies use that for the bookings and payments side of things. In automation in financial services, fintech was a big opportunity. We have helped create FinTech Scotland to grow the cluster that we have. We know that Scotland is the most well-developed cluster outside of London, but we need to build on that. A big part of that is creating more opportunities for start-ups. For example, Fife College is looking at a new programme to create skills for the automation of payments. In the work that we are doing with our partners in Glasgow, we are looking at how we create capability to apply quantum technologies in the context of different industries—quantum computing in financial services but also in other industries such as food and drink.

We are applying that right across the piece, in some ways thinking about demand and supply. How do we make sure that we have all the centres of excellence and academic and expert practical application and how do we apply that to all the industries we have? We are making sure that we do both. Construction is a good example of where we are actively doing that at the moment. I am happy to share with you how we create the capability and make sure that all the industries understand and dovetail those two things closely together.

Gordon MacDonald: I have been to the construction innovation centre and it is fantastic.

Linda Hanna: It is brilliant.

Steve Dunlop: I think that it is a really good point. As things move so quickly ahead of us and change and have massive impacts, we, as this family of agencies, are beginning to collaborate more deeply. There will be the potential for us not just to provide business support in a high-quality way to all businesses but to provide consistent and clear information and insight on a real-time basis to all our business community. In that way, we will be able to give much more information, insight and support that will drive how we invest in businesses to help them cope with that degree of change and challenge. It is a big challenge for all of us, but the system is beginning to organise itself in a way to cope with it.

Gordon MacDonald: On the point that you make about the system starting to organise and having increased collaboration, is there a need for a Scottish commission on the fourth industrial revolution, as was proposed last week by one of the witnesses? It would bring public and private agencies and Government agencies together to facilitate discussions about what we want to achieve out of the fourth industrial revolution.

Steve Dunlop: That is a good idea. Those conversations are happening in many places and at different rates. I think that those who are on top of it are taking advantage of it. For me, it is about how you organise that conversation and make sure that it is accessible to as many people as possible. If you take Brexit as an example, it is so complicated and so worrying that folks just wait to see that it is over and then try to respond to it. You cannot do that with this technology. You have to be part of it and Scotland needs to be at the front wave of that, so we would be very supportive of anything that helps.

Gordon MacDonald: Many countries across Europe, including Finland and Germany, are looking at the challenge of automation. How do we ensure that Scotland is at the forefront of the automation and artificial intelligence revolution?

Steve Dunlop: We have made some significant investments and there is more to come—for example, a national manufacturing institute for Scotland. That will have a huge impact not just on the major companies, but on the whole supply chain. Big strategic investments will make a difference, but we need to work across the whole patch and the whole spectrum, and to get the whole system working. There are fabulous examples of some really exciting initiatives.

Linda Hanna: There is huge investment going on now. Edinburgh is the data capital of Europe. I know that that trips off the tongue, but think about what that means in the context of automation—generating data, using data and driving improvements and opportunities on the back of that. We can be at the forefront of it. There is a confidence and belief that goes with that, and we and our partners have made significant investments in creating that capability.

There is no point in having capability if companies are not using it, so the other piece in the story is the connectors. We support that and we will drive companies to help them to understand that. The innovation centres that we have invested in are great examples of the collaborative work of the family of agencies, using the data lab, the centre of excellence for sensor and imaging systems, and others that do that. There is now infrastructure.

We need to make sure that we move ahead together as a country, and that Scotland takes the advantage, because there will be different capabilities in different parts of Scotland and, as Steve Dunlop described, the prospect of what that all adds up to can be quite compelling. We need to make sure that we follow through on that and that we do that at scale.

There is a real appetite for that at the moment. When I look at the investment that is going on in the other side of the city or in Glasgow and the capabilities there, I see that there are huge opportunities. We must make sure that we use them for all parts of Scotland, which we are committed to doing.

Gordon MacDonald: You have highlighted Edinburgh wanting to be the data capital of Europe, and you mentioned fintech and all the rest of it. Does Brexit undermine all that?

Linda Hanna: To say that Brexit is a challenge is the understatement of the day. Brexit is a huge challenge, but all the conversations that we are having with businesses and our partners are about pressing ahead with what we think needs to be done right now. The situation is not yet clear, so we will need to watch it as it goes, but we are pressing ahead. We are not going to wait.

The work with fintech is a good example. The biggest contribution to the growth of the fintech cluster in the last year has been from start-ups. We have seen some inward investment as well, which is great. We have not yet seen the Brexit deal and I do not think that we can wait for it. We need to make sure that we press ahead.

Steve Dunlop: Barclays bank’s very significant investment in Glasgow spoke to us of the talent that Scotland has in fintech. It speaks to the support, the wraparound of guaranteeing the skills base going forward, and the competitive cost base that Scotland has. We need to be able to help businesses respond to every challenge that Brexit brings, but there will also be opportunities. We need to be really nimble and to take advantage of those opportunities quickly. Barclays is a good example that will have an enormous catalytic effect on Glasgow, and which speaks to Scotland’s being a banking centre for the future.

Linda Hanna: Future proofing is really important, but it is hard because we do not have a crystal ball. It is about thinking ahead about where automation is going, where industries are going and where the trade flows are going, and how we future proof all that as much as possible through the investments that we make. How do we use that to attract another Barclays, or to help companies to expand and get clusters to form? Place making is going to be quite important because skills are incredibly important in all that.

That is the kind of approach that we are taking to the emerging industries and applying to our existing industries.

Dean Lockhart: A number of new enterprise initiatives have been announced in the past year, including the Scottish national investment bank and the south of Scotland enterprise agency. What are your thoughts on how best the family of agencies can avoid duplicating effort? I think that the estimated cost of setting up the SNIB will be about £30 million. With that added to the annual running costs of the other agencies, we are looking at roughly £130 million or £140 million a year in running costs, before any money is invested in the economy. Is there any way the agencies together can address costs and duplication?

Steve Dunlop: Scottish Enterprise is very supportive of both those initiatives, and we will do all that we can in the transition from the Scottish Investment Bank to the national investment bank. They will be different things that serve different purposes. It is really important that we manage that process very smoothly, that there is no disruption to the market and that folks understand what that change is about so that we do not have any pause in investments. We are really committed to that. The relationships between the future SNIB and all the agencies will be very important—how we collaborate and ensure that there is a good understanding of not just what each does, but the relationships. We are determined to do that so that there is no wastage, duplication or unhelpful overlap. That process is under way now.

We are hopeful for a very buoyant south of Scotland. What that means is that we will want to support it. For example, we would see SDI still supporting the south of Scotland agency, as it does HIE, so there is no need to duplicate a foreign direct investment capability in the south of Scotland because it will already have it with SDI. All that is being worked through. We want to be as supportive as we can in order to make sure that the south of Scotland can be all that it can be, and that is what we will do over the next year or so.

12:15

Dean Lockhart: Is there discussion of how the overall costs of setting up and running the enterprise agencies across the board can be managed?

Steve Dunlop: Cost and value for money will be at the heart of everything that we do, so where we can share we will, and where we do not need to copy, we will eliminate that. So far the discussions have been extremely positive. None of us wants to waste resource either in setting the agency up or in continuing it. That will be at the forefront of our minds.

Jackie Baillie: Your business plan seems to suggest a move away from using the term “growth sectors”; you are now using the term “opportunities”. Does that signal a shift, or am I reading too much into a change of words?

Steve Dunlop: Linda Hanna can speak to that. We have been accused of being too narrowly focused on sectors and on what the computer says—the computer can say no sometimes to opportunities that folks consider should not pass us by. For me, sectors will remain important, but we absolutely must be open to opportunities, so we will flex our capabilities and resources to respond to those opportunities. That is a shift, probably.

Jackie Baillie: That is good.

Linda Hanna: We are doing both, actually. Sectors will continue to be important to Scotland’s economy. For example, if you meet with an aerospace company, it will recognise that it is part of the aerospace sector. It is important that we, as the national agency, know what is going on in the sectors, what the supply chains are and how we can support them. We have recognised over the past couple of years that that is fine, but the world does not live in buckets like that.

On capability in manufacturing, the digital piece or the transition to a low-carbon economy, the opportunities cross sectors. We have tried to ride both—we need to understand what we need to do to respond to the global opportunities for those things, and then apply that and support industries to respond. We are continuing to work with industry leadership groups and we will be participating in the Scottish Government’s review of sectors this year.

The other thing that we want to understand is how we can apply all the learning that we have, and any further learning, in particular on productivity in high-employing lower-productivity sectors—the care sector and others.

We are doing both, if that helps.

Jackie Baillie: It does.

The Convener: I have a final question. Your answer might be that

“the world does not live in buckets like that.”

What do you think of the usefulness of conditionality—for example, a condition for business support being the achievement of a specific goal, such as bringing more disabled people into employment, or whatever?

Steve Dunlop: I think that the development around RSA is helpful. Our evidence is that the businesses that we have supported so far have adopted the positive practices that we have suggested. With RSA, the sense is of a different direction of travel in respect of us being much more articulate about what we want in return for public investment. You will see that for our major grants next year there will be more thought given to what we expect in relation to levels of conditionality. We will drive that forward. We will work with the business community.

We want to positively influence as best we can. You get the best results that way, rather than by using sticks. At some point we will want to test whether an investment in one area yields the kind of benefits that you would get from some of the conditions, versus investing it in areas that might find that more challenging. It feels to us that that is a big direction of travel that we want to make sure is understood by business, and that we can support business to achieve.

Linda Hanna: This is complex stuff. We are trying to make sure that we get the best value for money for every pound that we spend on the right things that we have talked about, and that we are at the vanguard—as a country; I do not mean Scottish Enterprise—of trying to nudge things in a particular direction, particularly in behaviours, and what we get from that.

It is about judging when the time is right to be doing things—encouraging and cajoling, and demonstrating evidence by getting a group of companies that can demonstrate benefit.

At a different point in time, we can think about conditionality. I think that if we do that too early it can switch lots of companies off. It is about the balance of what we do, how we do it and the timing of that. We are always open to thinking about how we make sure that we get that right and that we do not switch things off too early. That is going to help us to move forward with things that are quite important.

The Convener: Thank you very much for coming in today.

12:20

Meeting continued in private until 13:07.

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