



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Energy and Fair Work Committee

Tuesday 27 November 2018

Session 5



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ECONOMY, ENERGY AND FAIR WORK COMMITTEE
33rd 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:

Willie Coffey (Kilmarnock and Irvine Valley) (SNP) (Committee Substitute)
Keith Devine (Royal Bank of Scotland)
Andrew Dickson (Business Loans Scotland)
Tom Mason (North East Scotland) (Con) (Committee Substitute)
Professor Gary McEwan (Elevator)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy, Energy and Fair Work Committee

Tuesday 27 November 2018

[The Convener opened the meeting at 09:45]

Decision on Taking Business in Private

The Convener (Gordon Lindhurst): Welcome to the 33rd meeting of the Economy, Energy and Fair Work Committee in 2018. The first agenda item is a decision on taking items 4, 5 and 6 in private. Do members agree?

Members *indicated agreement.*

The Convener: We have apologies from Colin Beattie, Dean Lockhart and Andy Wightman. We have Willie Coffey and Tom Mason here as substitutes. I ask everyone in the public gallery to turn electrical devices to silent.

Business Support Inquiry

09:45

The Convener: Our next agenda item is the business support inquiry. We have three witnesses, whom I welcome: Andrew Dickson, fund manager, Business Loans Scotland; Keith Devine, senior director of business banking, the Royal Bank of Scotland; and Professor Gary McEwan, chief executive—not “executor”, we hope—Elevator. The microphones will be operated by broadcasting, so there is no need to press any buttons. If you want to come into the discussion, just raise a hand so that I can bring you in.

I will start with a general question to all three witnesses. What do you think of the provision of access to finance for small and medium-sized enterprises in Scotland? Is sufficient finance provided and available to them? Do SMEs in Scotland face specific difficulties in gaining access to finance?

Andrew Dickson (Business Loans Scotland): I represent Business Loans Scotland, which has local authority-backed loan funds, so we have money in the bank to lend to SMEs. Our market is predominantly new and growing young businesses. There is definitely room for improvement with regard to access to finance. There have been a number of initiatives recently with more financial products out there, but I am not sure whether we are totally aware of what one another is doing, and that is certainly the case for the understanding by small and medium-sized businesses about what is available.

The Convener: You mentioned the need for more access to finance. What form could that take?

Andrew Dickson: With regard to financial products?

The Convener: You tell me.

Andrew Dickson: There is a good range of financial products, from microfinance to debt and equity finance. My interest is in debt finance between £25,000 and £100,000; I am responsible for that, so that is what I am most able to talk about. Although there is a good range, the issue is making sure that businesses know where to go and how to access funding when they need it.

The Convener: In your experience, if businesses do that, is there sufficient financing for them?

Andrew Dickson: Yes. The position is improving. The range and the amount of funds that are available are greater now than they were a

number of years ago—they have definitely increased.

The Convener: Would our other guests like to come in?

Professor Gary McEwan (Elevator): I represent Elevator, which delivers almost 25 per cent of all business gateway start-ups for Scotland. We have many business advisers, who are recruited to connect people to finance as one of their roles. The advisers have to have a very broad range of skills, but navigation of the funding mechanisms is perhaps the most difficult part of the adviser's job. There are many places where access to finance can be found—there is a lot out there, but it is complex.

The other issue is that those entrepreneurs, who should be focusing on building reputation, credibility and their companies, can spend too much time continually looking at the next round of funding, which is so time-consuming. Entrepreneurs will often reflect after four or five years of the journey that they have become funding experts, because the problem is that it is not joined up. There is no helpful road map for what is a small country.

The Convener: How could that be improved?

Professor McEwan: I agree that there is plenty out there, but there is sometimes too much in one part of the timeline of a business's growth. When a business is just beginning, nobody wants to touch it because there are too many unknowns and there is too little to go on. Funding for businesses in growth mode is much easier to get. I agree that we have a lot of funding, but I do not think that it is evenly spread throughout the journey of a business. We need to do more for start-ups and for early-stage growth businesses, because the market takes care of stuff after that. We could help the situation by having more of a continuing professional development process in the business gateway programme. That would allow the business-advising community to have a better grasp of how they can navigate through the funding mechanisms, because they could spend all their time just raising money for clients, as it is such a tough thing to do.

The Convener: That would mean that they could not work on the business. Does that stop them focusing on the business?

Professor McEwan: The task of raising money to grow a company is an onerous one that takes a disproportionate amount of time away from an entrepreneur's workload, which is time that could be more valuably spent building the business. They can get to the point where they have a finance director who can take control of raising money, but it is difficult to do that in the early stages.

Andrew Dickson: In a lot of new businesses and young businesses, the principal, owners or directors are working in their business as opposed to on their business. There is a key change there that entrepreneurs and business owners need to be able to make. They need to have the teams around them that can do the day-to-day stuff that is required to start up, grow and develop the business and allow the principal or managing director to be able to work on their business and undertake the tasks of looking at how they will access new markets, raise funding and create the opportunities that will then create the jobs that we are looking for, certainly from an economic development perspective.

The Convener: Mr Devine, is RBS ready to lend money to start up businesses?

Keith Devine (Royal Bank of Scotland): In short, the answer is yes. We are very proud of the fact that we bank one in three businesses in Scotland. The sector of the bank that I am involved in deals with the start-up to £2 million turnover phase and we have about 111,000 customers who are in that sector. We support businesses in a variety of ways. We have a team of 65 relationship managers who work locally with customers to find out what they need and how we can help. We have a team of eight business growth enablers, who are individuals who do not have day-to-day responsibility for supporting active customers; their job is to be the public face of the bank to let customers know about the wider ecosystem in Scotland and see who we can support, both internally within the Royal Bank and externally.

We are trying to make it much easier for customers to access finance and we have undertaken various initiatives, such as looking at pre-approved limits. We proactively go to customers who have not approached us for funds and say, "Based on what we know about you, this is how much we think that we can lend you." For our 9,000 or so customers who are looked after by our relationship managers, we have around £168 million-worth of funding that has been approved and is simply waiting on customers saying, "Yes, I would like that funding." To date, of the £168 million that we have made available, only £12 million has been taken up, so we see it as a demand problem rather than a supply problem. However, I echo what my colleagues have said: one way in which we can improve is by signposting better the range of support that is available from banks, agencies and the growth bodies that are out there, because it is fair to say that not every customer knows who can offer what.

The Convener: One of the criticisms that might be made of the scenario that you have presented

is that businesses say that the funds may be there but they cannot get the lending, or they cannot get it on long-term reasonable conditions.

Keith Devine: We seek to offer competitive terms that are market facing and right for the business. We are in the business of lending money to sustainable companies that are in a position to pay it back in the future. We do not seek to put in unnecessary conditions or charge at prohibitive rates. We want to offer fair terms for the individual deal that is put in front of us.

Jackie Baillie (Dumbarton) (Lab): I would like to drill down into some of the responses that you gave to the convener's questions. I observe that, certainly immediately post the banking crash, it was a supply problem rather than a demand problem. Do you think that competition in SME banking has improved? Is there now more choice out there for a business that is looking for a loan?

Keith Devine: Competition is a great thing. It ensures that the banks continue to innovate and seek to be different and to differentiate not just in the blind supply of funds but in what else they can offer businesses, entrepreneurs and communities. We do not simply supply funds. We connect people and offer advice and free events—for both our customers and non-customers—to make sure that people are aware of what options are available.

I take your point. Ten years ago, perhaps there was a supply problem, but things have moved on significantly since then, and our experience is that we have funds available to lend to the right businesses that are able to pay those loans back in future. It is not in the interests of the bank, the economy or customers for us to lend money that is not affordable and cannot be paid back, so we are at pains to tailor the right package for the right customer.

Jackie Baillie: How much has your overall lending portfolio increased by since, say, 10 years ago?

Keith Devine: I will be happy to come back to you with the 10-year figures. What I can tell you now is that our asset book has grown by about 5 per cent since the start of 2018. In the previous year, it grew by about 7 per cent.

Jackie Baillie: Do the other witnesses have observations on the point about competition?

Andrew Dickson: There is a good level of competition. The four major banks still dominate the Scottish market in terms of providing facilities for overdrafts and loans, but the *raison d'être* of Business Loans Scotland is to fill the gap when the private sector is not prepared to lend. The banks might not be prepared to do that for a number of reasons, for example to do with risk or

lack of security. Our *raison d'être* is to try to make available to businesses the funds that they need to deliver projects and plans in the timescales that they set for them.

Business Loans Scotland is relatively new. We have been going for about 18 months. Before that, there were the West of Scotland Loan Fund and the East of Scotland Investment Fund, which some of you might have heard of. They merged into what is now a Scotland-wide loan fund, and we will go where the demand is. As I said, we are there to fill the gap that is left by the private sector. Otherwise, there would be no remit for us to get involved in economic development, because the private sector would be doing what it is supposed to do. However, that gap definitely exists.

10:00

Professor McEwan: In the past 10 years, the landscape has changed. Ten years ago, the banks largely withdrew into their shells for a while. Of all the banks, the Royal Bank of Scotland has been the most active player in the market; the rest do not have too much appetite for supporting the early stages of an organisation, because that involves too high a risk and too much effort. The Royal Bank is possibly the exception; it is very active.

Other products, such as peer-to-peer lending and crowdfunding, have appeared in the past 10 years to broaden the range of the menu. That is healthy, but there are still gaps, and it is good that local authorities are filling some of them.

More things can be done. We are trying to emulate examples from Europe of the business start-up community and banks working better together. We would do well to copy some of that.

Jackie Baillie: It is right to say that the alternative finance sector has grown impressively, but is it true that it still accounts for a tiny proportion of what is out there? My colleagues will explore what you think we can learn from other countries, but what actions need to be taken now to improve the landscape?

Keith Devine: One issue is that people's perception is still that banks do not want to lend, and it is up to us to get past that. It is not up to our customers to knock on our door and ask for funding—we must make them aware that we are there, be proactive and tell them about the successes that we are having. We must ensure that customers are aware that there is an appetite to lend.

We need to help to prepare businesses that are at the pre-funding stage. We can offer advice one to one or in groups, or we can signpost a business to an agency that it might benefit from going to.

We all accept that, these days, accountants do not survive simply by completing a set of accounts once a year; they are in the market to offer advice. That advice is good on occasions but, normally, customers are charged for it. Accountants might not promote the services of accelerator hubs, business gateway and other agencies that can help with grant funding as opposed to debt funding.

Jackie Baillie: I will take that one stage further. Raising businesses' awareness is critical. To do that, do you target accountants? Who else do you target to increase businesses' awareness and understanding of what is out there?

Keith Devine: We target anybody who we can talk to, such as customers, accountants and solicitors. We want to spread the message as far and wide as we can. As I said, we thrive when Scotland thrives. When businesses are doing well, we do well. However, we need to lend to the right businesses on the right terms, when there is a realistic chance that we will get our cash back.

Jackie Baillie: Does removing relationship managers from the branch network help that process?

Keith Devine: It is fair to say that the relationship manager is a cornerstone of the service that we provide; it differentiates us from other banks, as we have the biggest network of relationship managers.

You have mentioned branch closures, but our relationship managers are tasked with going out to businesses, rather than saying, "Ms Baillie, would you like to come in and see us?" That might have been the approach 20 years ago, but we recognise that businesses want to be seen at a time and in a place that is convenient for them, so we strive to do that. We get a better insight into a business if we can wander about and see things—that sparks good discussions. We do not rely on a customer coming into a bank branch and sitting in our office to discuss lending.

Jackie Baillie: That is just as well, given that you have fewer branches.

Andrew Dickson: I think that businesses turn first to their bank or accountant for the professional advice that we are talking about, particularly when it comes to raising funding. If they can raise the money from the banks, that is all well and good and there is no need for a fund such as Business Loans Scotland to get involved.

The point of entry to us is through the network of local authority economic development teams and the business gateway service. We rely heavily on the network of economic development officers and business gateway advisers on the ground at local level. When those people work with businesses

and identify a need to raise funds, we might be one of the available solutions, particularly if the aim is to raise funding in the £25,000 to £100,000 range that we offer.

However, the starting point for businesses is their professional advisers: their banks, their accountants and sometimes their solicitors. We try to get our message out to all the banks and accountants, because we do not know when a business will be looking for funding; we need to make sure that the network is aware that we exist and have the facility to support a business that needs to fill a gap.

Professor McEwan: Jackie Baillie asked how the landscape could be improved. The fundamental problem is that an entrepreneur who is trying to start or grow an SME is, inherently, in the risk business, and banks are not in the risk business. That is the problem.

How do we solve that? You mentioned relationship managers, who used to go some way towards bridging that gap by giving the institution some comfort that they were in control and had assessed the situation. The fact that so much now comes down to a computer saying yes or no is a loss for us. It scares entrepreneurs away from borrowing.

You will be aware of the Scottish encouraging dynamic growth entrepreneurs programme—Scottish EDGE—which I think is a masterstroke in bridging the gap between risk and risk aversion. The Royal Bank of Scotland, the Hunter Foundation and the Scottish Government support the programme, as do Business Loans Scotland and many of the like, so people with different risk appetites are blended into something that bridges the gap. We probably need to acknowledge that banks and entrepreneurs sometimes talk in a different language and it is up to us to come up with different models that bridge the gap.

Keith Devine: At the Royal Bank, we use technology to speed up lending decisions, on occasions, but the computer does not say "no"; it says "refer", and we then refer the lending decision to a human being, who can consider whether there is more to the deal than meets the eye—it might not be a case of a square peg and a square hole. Sometimes the decision is "not yet", but we then have a conversation with the customer to explain what we need to do to make a deal viable for them and for the bank.

Although technology plays an important part in what we do, we still have human beings, who are there to look at a deal and ask, "Does this stack up, or could we tinker with it so that it is the right thing for the bank and for the customer?" We have talked about risk and, ultimately, the risks to the bank and to the entrepreneur are the same—we

both want to manage and minimise the risks. We want to ensure that we do the right thing for the customer who is in front of us at the time.

Jackie Baillie: That was useful to know. I am glad that humans are still involved.

My local businesses miss having a relationship manager on their high street. The relationship manager was someone whom they could trust and whom the bank trusted, too. We are missing something there.

Angela Constance (Almond Valley) (SNP): I am interested in hearing what we have learned since the Royal Bank of Scotland's debacle with its global restructuring group.

People will be aware that GRG was a service that was meant to support struggling small businesses and it was closed in 2013. A subsequent Financial Conduct Authority inquiry concluded that some of the businesses that were transferred by RBS into the restructuring division were not viable. However, of those that were judged to have sound prospects, the FCA found that one in six had been damaged through GRG's management, including the application of higher interest rates and new fees.

I am interested to know what we have learned, particularly given that Brexit in some shape or form is round the corner, and whether trust has been rebuilt. We will start with Mr Devine.

Keith Devine: The main lesson that we have learned is that, when we deal with the lending proposals that we now receive, the key factor to consider is whether the business can service and support the debt that it is taking on. We look at that in the context of the current climate, in which interest rates are at historically low levels; we also look at what would happen if the economic landscape changed and whether the business could support the loan if interest rates were to increase. Alternatively, we look at what would happen if a competitor opened up nearby and the turnover of the business reduced—would the deal still stack up? We ask whether we are lending in a responsible fashion to allow the business to meet its obligations now and in future.

There are no guarantees and there will be times when we lend cash and something happens to the business to put it in difficulty for months or years to come. We have closed the global restructuring group but we still have specialists who can help businesses in highly stressful situations, so we are there to support our customers.

Angela Constance: Would other members of the panel like to contribute?

Andrew Dickson: I am not sure that I can add much more, but we need to bear in mind that we should be treating the customer fairly.

Professor McEwan: I am very happy to answer questions but this is definitely not my sweet spot.

Angela Constance: We have already mentioned the B word—Brexit—and I am particularly interested in the panel's view of the impact that Brexit will have on business support, given that the European structural and investment funds, including the European regional development fund, have been particularly important in that regard. Will the nature of how business support is provided and the level of support that SMEs will require change and, if so, why and how? I will start with Mr Dickson.

Andrew Dickson: Business Loans Scotland currently receives European funding, which will come to an end at the end of December. We have been offered the chance to move into a new debt fund in partnership with the Scottish Government from January and we are looking to conclude that. With a lack of available ERDF funding, there will be a reduction in the resources that are available to business support services and perhaps to business gateway in respect of the funding that it is able to add to its core service by using ERDF funding. If the ERDF funding is not replaced, there will have to be a reduction in the level of service and resources that are available for business support programmes.

As far as the customer is concerned, Brexit increases the level of uncertainty about what is going to happen post-Brexit and leading up to Brexit, which will have implications for the working capital requirements and cash flow requirements of businesses as they try to understand what will happen to their customers and their suppliers. Therefore, funds such as Business Loans Scotland, and the new fund from next year, may have to come in and support businesses that have capital working requirements and cash flow requirements, more so than we have done to date.

10:15

Keith Devine: I echo many of the things that Andrew Dickson said, particularly around uncertainty. Businesses like certainty. They like to be able to plan for the future, based on known outcomes. Right now, we do not have that. Within the Royal Bank of Scotland, we will continue to sit down with any customer to discuss any of their concerns. We have experts on hand who are able either to talk in general terms, or to answer specific queries that may affect one business or another.

Angela Constance: Is this an area on which you would like to comment, Professor McEwan?

Professor McEwan: I would like to respond to this one. At best, the business gateway funding has been static for the past eight years or so. That

does nothing to help us to innovate and to try new things. However, the introduction of European regional development fund funding has been a welcome addition. We run a business accelerator in the University of Dundee, which is hugely successful but is staffed by people who are funded through the ERDF programme. In Aberdeen, we have been able to implement a diagnostic review system, again through ERDF support. The programme has been able to add value to the core business gateway funding. If the ERDF is ultimately lost, decisions will have to be made about how to ensure that that loss does not hamper us from trying new things and being able to develop services. It has definitely filled a gap where business gateway has been a fairly static income line.

Angela Constance: Do you have any views on what we can learn from business support in other parts of Europe and the UK, and what works well and less well elsewhere?

Professor McEwan: In Aberdeen and Dundee, we have manifestations of the best business support that I could find in Europe or in the United States. In fact, Babson College, which is the number 1 university for entrepreneurship in the States, recently tweeted that, having seen the Aberdeen business gateway facility, it thought that there was nothing better in the US. That was a great endorsement.

The best cities and regions are creating entrepreneurial cultures. The business gateway service is part of an ecosystem, but it is not the ecosystem. It is incumbent on us to create entrepreneurial communities. For example, Barcelona is a great example of a city with a population that is almost as large as Scotland's and yet it has a single place to which all the entrepreneurs go that is filled with energy and integration. That is definitely the way to do it. We created such a centre in Aberdeen four years ago. We were audited recently by the consultancy EKOS, which found that the centre is generating 14 per cent of the business gateway start-ups in Scotland, despite having only 8 per cent of the population. It has been truly transformational in creating an entrepreneurial culture.

We can learn a lot. We have copied the Barcelona Activa model so that every bank is represented in the Aberdeen business gateway space, where they work side by side with the advisers. We have created an open-access space where the public can walk in. There is no formality around it; there is no reception and there are no badges. If someone wants to speak to business advisers they just speak to them, because they are all there. We can learn a lot from some of the continental ways of doing things, which generate great amounts of energy.

I would like you to see in action how we can have such centres in Scotland's main cities and connect them all up. We connect our Dundee and Aberdeen facilities and the energy in these two places now is palpable.

There is a lot to learn, but sometimes we need to look outside Scotland to get inspiration from what is being done in other places.

Angela Constance: Do the other panel members wish to contribute on what we can learn from elsewhere in the UK or further afield?

Andrew Dickson: I am not sure that I can add to what Professor McEwan said. Where a type of resource and service works particularly well in one place in Scotland, we should ensure that it is made available when it is needed elsewhere.

I have heard anecdotally, from people who come up to see the system and the service that we have in Scotland, that our businesses and entrepreneurs are well served compared with those in other parts of the UK. Through the business gateway service we have a good system in place, and our approach is much more joined up than it was a good number of years ago. Responsibility for the service has been transferred to local authorities under the umbrella of the Convention of Scottish Local Authorities, and that has been a move in the right direction.

Keith Devine: My colleagues are better placed to talk about provision in other countries, although I would add that the ecosystem is the important part here. We have different bodies that are connected and which can point customers or businesses to other agencies or areas in which support can be given.

Scotland is well served by accelerator hubs. We have two—one in Edinburgh and one in Glasgow—and they work very well. So far, we have helped around 800 businesses, which, in turn, have created 2,000 jobs. I consider it a very important statistic that the typical survival rate after 18 months for businesses that are given such support is around 85 per cent, as opposed to the UK average of 20 per cent for businesses without it. Clearly, therefore, we are doing some things very well. It is just a question of ensuring that we are touching as many businesses in Scotland as we possibly can.

Angela Constance: My final question is for all panel members. All the evidence shows that addressing the underrepresentation in the economy of women and other groups—whether they be people from black and minority ethnic backgrounds, people with disabilities or folk from more disadvantaged areas—by tapping into all our talents is good for business and the economy. Do panel members agree with that? I ask them to share with the committee what they are doing to

address the underrepresentation of such groups in our economy.

Andrew Dickson: I absolutely agree with what you have said. My point is about ensuring that any business that needs to access finance is able to do so irrespective of who leads or owns it. I am trying to ensure that the supply of access to finance is there for businesses as and when they require it.

We measure how many female entrepreneurs we have supported, and how many businesses are led by women, and the numbers have generally increased in past years. About 75 per cent of businesses that we deal with are owned by men, while about 10 to 12 per cent are owned by women. Where we are able to measure businesses that are owned jointly by men and women, they make up the balance.

I look to my colleagues in local authorities and the business gateway service to ensure that our message is being spread far and wide to the businesses with which they are working, so that if such businesses need funding we are one of their options.

Angela Constance: A few weeks ago, the committee heard evidence from Women's Enterprise Scotland, which pointed to very stark statistics about women being far less likely than their male counterparts to be able to access finance in the first place. That was partly because of the ways in which services were articulated, presented and targeted: they were not gender aware, and there were some inherent views about particular types of business, with some being written off as lifestyle businesses.

I appreciate that you—and, I hope, other groups—are quantifying and counting the representation of women, but what specific work is being done to reach those who are underrepresented in receiving services?

Andrew Dickson: We have an active marketing campaign, which tries to spread our message across Scotland through a number of channels. We are active online; we use social media to get across our message that we are open for business and that we are there to support businesses that cannot raise all the funds from the private sector. Our marketing campaign also involves adverts and case studies across a number of media channels, including various publications and newspapers.

I am trying to spread the message that, irrespective of who is running a business, if they are looking for funding, we might be able to help them to fill that gap and meet that need.

Angela Constance: Small and medium-sized enterprises are not a homogeneous group, and neither are the people running them. We have

heard evidence from Women's Enterprise Scotland that trying to remarket and retarget the same old products does not necessarily address issues of underrepresentation. I am interested in what the banking sector is doing in that regard.

Keith Devine: We seek to offer the right support and solutions to any customer who sits in front of us, irrespective of their background. However, I recognise the point that you are making, particularly around women-led businesses.

The Royal Bank has worked closely with Women's Enterprise Scotland for the past five years. We have 60 women in business specialists in Scotland. Last year, they organised and ran 300 female-focused events across the country, which were attended by 11,000 women and considered a broad range of subjects, including women in agriculture and women in leadership.

We have two entrepreneurial hubs to support businesses that have the ambition and potential to grow. Some 43 of the businesses that are going through that programme are female led. We are not quite at the 50 per cent mark yet, but we are aware of our responsibilities to help female entrepreneurs and business owners, and we will seek to continue to do that.

Professor McEwan: This is a changing environment. In the mid-1990s, Scottish Enterprise had a 15 per cent target for female entrepreneurship. At the time, that seemed aspirational. However, in the past two years in the Aberdeenshire area, more than half of the entrepreneurs who have started businesses have been female. We have come on a lot.

We have two issues in Scotland. First, we have to help more businesses to start up. The Scottish Government has a start-up target that amounts to, I think, 10,000 nationally—somebody must have decided at some time that that figure was a barometer of entrepreneurial health. That figure should go, because it limits ambition. What could we achieve if we took the lid off that?

Secondly, we will achieve more by unlocking the untapped potential of the sort of latent entrepreneurship that lies in all the groups that you have just spoken about. When something is given a focus in the way that has been done with women's entrepreneurship, the results can be quite startling. Young people are another group with which we need to take a more joined-up approach. We need to teach entrepreneurship at a young age, so that it is normal for a young person to expect that, one day, they will be a wealth creator.

We have to do all those things inclusively. There is no point in constantly repeating the same answers to the same people—the ones who are going to be entrepreneurs anyway. We have to

unlock the potential of the entire country and inclusively grow our economy that way.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): I want to explore with you the experience of business gateway over the 10 years or so in which it has been providing localised support. I remember being in Parliament when the transition from the enterprise networks to business gateway took place. What are your thoughts on how the model has worked over the period in terms of the level of support and advice that small businesses get from the model locally?

10:30

Andrew Dickson: Business Loans Scotland could not deliver the loans that we give to small businesses without the business gateway service and the wider local authority economic development teams that provide services to SMEs across their areas.

I, too, remember the transition of responsibilities from Scottish Enterprise to COSLA and the local authorities. I have seen a more joined-up approach being taken over those 10 years. Of course, there is room for improvement, and there is still some way to go but, that said, we are fighting against a decline in resources and staff, in particular, in the business gateway service and in local authorities generally, as budgets are under pressure.

Keith Devine: My fellow witnesses are in a better position than I am to describe the support from business gateway.

I would categorise RBS's relationship with business gateway as being very much at the local level, with our local relationship manager or business growth enabler having contact within the business gateway office. The strength of the relationship will probably be determined by the individuals concerned.

I am not aware of any formal relationship at national level between business gateway and the Royal Bank of Scotland. We do not see specific figures relating to the metrics that business gateway records.

Professor McEwan: It was good that the service went from Scottish Enterprise to local authorities, because they have a better sense of what is happening locally and what local needs are. There was an attempt to standardise the business gateway offering so that people got the same service regardless of where they were. Over the years, the approach has fragmented slightly and areas now all offer something slightly different. That is not a bad thing: although we are a small country, needs are different in the different parts of the country.

Having travelled extensively and examined the business support that is available in other European countries and in the Americas, I have found nothing better than business gateway. It is not perfect and it has gaps, but if the model is built right and delivered correctly, it is a gem of our country. We should not forget that: in many countries, small businesses are left to languish and find their own way. Business gateway has its critics, whom I invite to go and look at what happens in other countries.

Willie Coffey: Earlier, you talked about problems. You said that it is difficult to navigate the various funding mechanisms and so on, and that it seems almost as if every small business must appoint a business director who can concentrate on finding money. Did those problems exist before the business gateway model appeared? Has the model made them worse?

Professor McEwan: Business gateway certainly has not made problems worse. Businesses not having business gateway to help them would be like flying a plane without a navigator. A business trying to navigate its way through a funding round would be faced with a real challenge if it did not have someone to show it the way. However, even the people who are showing businesses the way are often overwhelmed by the constant changes in the market.

Willie Coffey: Does the simplified model that you have seen in Europe and elsewhere represent a direction of travel that we should try to take and embrace more.

Professor McEwan: There are some interesting things happening in other countries. In Spain, the banks work alongside its equivalent to business gateway. When the person has been through extensive learning and business planning over a period that is often as long as six months, the bank takes a different view of their proposition such that, if funding is received, the business is charged 2 per cent less than the standard rate. There is real integration in how people are developed by a service to make them less risky and able to meet the bank halfway. In Scotland, there is still a disconnect. We could probably improve by having better cohesion in how clients are handed on through the process.

Willie Coffey: When the service was being provided by Scottish Enterprise Ayrshire, it would give me a presentation, perhaps quarterly, on what was happening in my constituency in terms of new business start-ups, the performance of businesses and so on. That was lost when the service moved over to business gateway, so perhaps business gateway does not feel that it is responsible for delivering that kind of information. Where would such responsibility lie now, if

members were to ask for a complete business profile for their parliamentary constituencies?

Professor McEwan: That would be fragmentary because there are so many different ways of delivering business gateway.

On the final Friday of every month in Aberdeen city and shire, we invite MSPs and councillors to an update on how things are going: our next update will be this coming Friday. We find that update to be important. Local politicians often do not know what is going on in the area, how it is doing economically and how the start-up culture is developing. They get a lot from taking time to come to those meetings.

Andrew Dickson: I can share with the committee the stats showing what Business Loans Scotland has done during the past 18 months after the meeting. I believe that stats are recorded for business gateway for the whole of Scotland, so you probably need to ask business gateway what that means for East Ayrshire specifically. Gateways must be measuring what they are doing; it is just a matter of their communicating that information to the appropriate individuals.

Willie Coffey: I find that it is rare indeed that such information, which would probably be of great interest to colleagues, is made available on a constituency basis. It is usually based on a local authority or some other boundary.

Andrew Dickson: We certainly report on a local authority area basis, so I could tell you how many businesses we have supported in each local authority area.

The Convener: It would be interesting to get that information in writing. It might help the committee.

Gordon MacDonald (Edinburgh Pentlands) (SNP): I want to continue the conversation that Willie Coffey started.

When we look at the level of support—in addition to finance—that is out there for small companies, start-ups and new entrepreneurs, we can see that they can get a wide range of business advice from the banks, chambers of commerce, the Federation of Small Businesses sometimes and—obviously—business gateway. However, we have heard this morning a range of comments to the effect that although Scotland is much more joined-up than other parts of the UK, SMEs are not totally aware of what services and finance are available, so there is a need for better signposting. How do we improve collaboration between all the organisations that are involved in giving businesses advice?

Andrew Dickson: That is a good question. I am not sure that I can give a definitive answer.

Gordon MacDonald: What would you like to see change?

Andrew Dickson: My priority is to get the message out there that Business Loans Scotland exists. The route that a business will take to seek funding from us will involve business gateway, sometimes local authority business advisers, and sometimes accountants. That is predominantly how we get our referrals and applications to Business Loans Scotland.

It is a constant battle to keep up awareness of what we can do among the organisations that represent their members, including Scottish Chambers of Commerce and the Federation of Small Businesses, which you mentioned. We exist to fill a gap in the market, but we do not know when a business will be looking for funding. We need to make sure that businesses in the whole of Scotland are aware that they can approach us if it is appropriate and relevant for them to do so.

I am not sure that I am answering the question. There is more to be done. We need to be able to do more and, from my perspective, we need to make sure that people are aware of the different sources of funding. I know that the number of funding sources has been increasing during the past few years, so there is more choice and availability. We need to try to make sure that all the stakeholders are connected.

Keith Devine: Businesses like information and recommendations. The Royal Bank understands that business gateway is a stand-alone independent body that might not want to be seen to be too close to any particular bank.

However, it would be useful for us to share with our customers good news stories or statistics that endorse the benefits of going to business gateway, including information on survival rates, access to funding and the number of jobs that have been created. We do not see specific statistics that we could share with our customers that would show them the benefit of going to business gateway and why we recommend it. By default, many of our customers go to their accountants, whom they know and trust and have built up a relationship with. We do not get the evidence that would show that going to business gateway or another body would be good for our customers' businesses.

Gordon MacDonald: You talked about the spirit of collaboration and said that businesses like information. As far as I am aware, RBS is still the largest provider of banking facilities to businesses in Scotland. Would RBS consider carrying posters and leaflets to highlight the services that are available from business gateway?

Keith Devine: We will do anything that will support our customers and local communities. If

we can share information with our customers, we will be delighted to do so.

Professor McEwan: Gordon MacDonald's original question referred to business advice from the FSB and chambers of commerce. I would be surprised if those organisations were to suggest that they give business advice.

Gordon MacDonald: What they offer is more in the way of training from time to time.

Professor McEwan: There is an ecosystem. This country will work because the parts of the ecosystem learn to work together. As I said, the model that we chose to develop was based on other models. Business gateway is at the heart of what we do. The clue is in the name—business gateway should be the gateway to everywhere that businesses need to go.

When someone walks into our centre in Aberdeen or Dundee, they can interact with business gateway—it is the heartbeat. Banks, accountants and lawyers are also represented in the same space. We have the local authority planning department, the chamber of commerce is downstairs and the FSB comes in regularly. The concept is to create a regional hub of entrepreneurship that is the go-to place for people to access everything that they need, so that navigation is less difficult. My vision is that what we have created will be replicated in all our cities and connected up. That would make us the best in class globally.

Gordon MacDonald: Has that approach been replicated in Scotland other than in the areas to which you referred?

Professor McEwan: Elevator has worked quite closely with Fife Council, which wanted to do something similar and has developed a version of the model on a smaller scale.

To have everything fragmented and to have people going into vanilla spaces that fail to inspire them and fail to provide integration and peer-to-peer support is not the way forward. The way forward is to have larger regional centres that provide an example of how 8 per cent or 9 per cent of the population can produce 14 per cent of the start-ups—which is what happens when that approach is taken.

Gordon MacDonald: Another way of getting the message across is effective marketing. We have seen conflicting written evidence on that. It ranges from comments such as

“Business Gateway is a well-known brand amongst the public and the service is easy to contact”

to

“A lack of real marketing effort continues to inhibit the reach of the service to new companies.”

How effective is business gateway's marketing? What needs to change to get the message across?

Professor McEwan: I will start with a short but strong point. The core business gateway marketing team does a great job. At first, it controlled everything, but over the years, more budget has been released to do local marketing with local phone numbers.

Elevator also does a lot of its own marketing. That combined effort works for us. The team advertises on national television, and it is great that we are on there. Such things can always be improved, but the approach works quite well.

The core marketing team is only part of the solution, however; the local authority could probably market the service better, and whoever delivers it could also do that. For us, that three-pronged approach would mean pretty decent penetration of the business community.

10:45

Gordon MacDonald: We heard evidence on one of our visits suggesting that television is an expensive way of getting an advert across and will not necessarily reach the target audience. Younger people now tend to watch television differently from what would have been the case years ago, and they will also not necessarily watch when they are out building businesses. There should be more effective ways of delivering marketing to them—whether that be through social media or by leafleting in various places where they might be, such as airports, libraries or bank branches. Would that be more effective?

Professor McEwan: I am not a marketing expert. I am sure that marketing teams would come to their own conclusions on that.

However, the business gateway brand is very well known in Scotland now. Previously, all the local enterprise companies had their own little brands—for example, First Business in Renfrewshire. There were all sorts of names but no identity, whereas there is one now. People know that business gateway is the go-to place.

I hope that people will be as innovative as they can be with the mechanisms that they use and will realise that there are different ways of marketing, using social media and so on.

Andrew Dickson: It might take a combination of all those outlets and channels to get the message across. We do not know when, for example, a person might be parked at traffic lights and look at a billboard that promotes business gateway.

More recently, seeing case studies and examples of businesses that have received support from business gateway has struck a chord with me. By and large, businesses identify with business. They understand that a particular type of business, sector or segment has been able to get a level of support from business gateway, so they think, "If they can get it, perhaps I can, too." For me, using real-life case studies and examples does that little bit extra to sell what the business gateway service is all about and what it can do or achieve for a person's own business.

Gordon MacDonald: Those of us who were on the visit to Dublin yesterday certainly heard from Enterprise Ireland that real-life examples are a better way of getting a message across, so I agree with that.

Keith Devine: I do not have anything to add.

Gordon MacDonald: How do we deliver a minimum level of quality service across the country? Again, we have heard conflicting evidence. One submission said that having the set-up that we do provides flexibility that is

"tailored to local needs and circumstances".

However, we have also heard evidence that says:

"The quality of the services is highly dependent on the skills and experience of the adviser."

What do we need to do to ensure that there is at least a minimum consistency of support across the country?

Keith Devine: Any service that is delivered will always be down to the quality of the individual who is sitting in front of the user. Generally speaking, the anecdotes that we hear about business gateway are very positive. Our customers tell us that, in the main, they have good experiences. However, in the run-up to appearing here, I canvassed some views. I suppose that people will always want to tell us about extremes. We had a case of a retailer in Lanarkshire that wanted to get a grant so that it could set up online. Things were incredibly slick, and it got what it wanted very quickly. Equally, I spoke to an accountant who told me about a business in Edinburgh that took six months to get to the point where it thought that funding had been agreed, only for a new case manager to come in. He decided that he wanted to review personally every single application in the office, so that funding application has stalled and there is no immediate timescale for when a conclusion might be reached.

Generally speaking, business gateway is a recognised and trusted brand, but it will always come down to the individuals in each place. That is why it is important that we have a recognised matrix that we record and publish, so that we can

see whether service level agreements are being met.

Professor McEwan: This problem was addressed some time ago with the introduction of the premier adviser programme, in which all business advisers in Scotland have to pass a set of exams within a year of their employment to be able to work in the business gateway service. I am closely involved in that process as an assessor, but the bar is not particularly high and we could consider making it tougher. Business advisers who are dealing with start-up businesses and those dealing with growing companies need different sets of skills, but we have only the one qualification at that lower level. I get twitchy when it comes to people who might have crossed that bar, but are trying to work with companies where they are out of their depth. Also, we do not have any CPD. Once people qualify, they qualify, but we should have continuous improvement of the business advisory support.

We could probably do better at monitoring. As a business gateway provider, I can tell you intimately what is going on in the areas that we are involved in, but I cannot tell you how anybody else is doing because that data is not published. There is no cohesion between our advisory teams and those in Fife or Glasgow. We do not talk, so there is a lack of sharing of best practice. There is a lot that we could do. There are about 600 to 700 business advisers operating in Scotland and we could all quite easily go up a few notches if we did some simple things.

Andrew Dickson: I have nothing to add to that. It comes down to the people and their skills and abilities to advise the business with the best information and advice that it needs at that point in time.

Tom Mason (North East Scotland) (Con): I hark back to 20 years ago when we could have been having the same conversations. Not too much has changed, although I am encouraged by what is going on in the north-east in terms of start-up and elevator activity.

Are there alternative models to those that we are using, to ensure sustainability in the numbers of businesses? If we get start-up enterprises up and going, are they materialising into sustainable businesses and in what proportions?

I am also conscious that entrepreneurs do not like to pour money into ventures in the form of overdrafts, because it is so risky for them. Through no fault of their own, the access to money can be withdrawn or is not secure to them, so some form of much longer-term investment in the companies might be appropriate. Sales levies have not been discussed in any way as a form of investment. People do not like taking equity too early in the

life-span of a business because they lose control, and the opportunity for making any money out of it disappears. Some alternative way of investing in the medium to long term might be appropriate. Your views on that would be appreciated.

Professor McEwan: I am happy to pick up the first question, on sustainability, but less so the second.

We have two challenges in this country: one is to start more businesses and the other is to help more of them to grow and to be significant. Business gateway's shortfall is that it does not do a whole lot to create an entrepreneurial environment to encourage people to get to the start line. It is a responsive and reactive service—when someone wants business advice they can have it. As a social enterprise, however, we have chosen to take our surpluses and invest them in the early stages to help more people to get to the start line.

The other part of the equation concerns what we do with the enterprises that have started up and are beginning to grow. They need a level of education that is quite different from that which business gateway will offer them. We therefore invest in the other end—in trying to get more of them to grow. Our model involves trying to create a surplus as a social enterprise, putting business gateway in the middle of what we do and using our services to invest in the parts that business gateway does not do, so that we can ensure that there is an end-to-end service.

The EKOS report highlights that approach as being quite unique—I think that that view is included in our written submission. EKOS suggests that, for every £1 that we invest in the pre-start and post-start stages, we have managed to unlock another £3 of private sector investment into the process. It says that that amounts to £21 in gross value added for every £1 that we spend. It represents a model of recycling wealth back into our community.

Although business gateway is the heart, it is not the complete body. We ensure that we have more entrepreneurs coming through into the process and that we have a way of handling the growth aspirations of those who come out of the process.

Andrew Dickson: As a loan fund, we are in the risk business. We are there to take that risk when the private sector and the banks, particularly, will not, for the reasons that I gave earlier.

We are trying to ensure that the businesses are adequately funded. We want them to be funded not at the minimum level that would get the project delivered but at a level that ensures that they have some headroom, so that they can weather any storms that are around the corner but that we cannot foresee. We want to ensure that they have

headroom above them and cash flow behind them, so they can deal with any downturns in supply or demand or whatever other issues they might face.

Tom Mason: But what of the issue of banks and loan funds withdrawing funding for reasons that are not to do with the enterprise but are external to it, such as rises in interest rates, which might well happen over the next five to 10 years? That represents a risk to a business that might be sustainable at present interest rates but not at higher interest rates.

Keith Devine: As I noted earlier, one of the things that we do as a responsible lender is to consider not only the current situation but also the future, in terms of the what-ifs. We ask ourselves what will happen if interest rates rise, for example. When we assess a lending application, we take into account the question whether that business can continue to service the debt if interest rates go up. Similarly, we consider whether the level of turnover is sustainable and ask what will happen if that level drops. It is not in our interests or the interests of the customer for us to lend money in a way that will not be affordable in the years to come. Equally, as Andrew Dickson said, we are in the risk business, and we will seek to lend funds where it is appropriate to do so and where it is the right thing for our customer and the bank.

Tom Mason: At the end of the day, you are not in the risk business. As Professor McEwan said, the company is in the risk business; the banks are not. Some kind of other equity-type investment is much more appropriate. We are talking about a business going from the beginning of the start-up stage, or a point at which it has demonstrated that it is a viable business, to the point at which it can be sustained over four, five or even 10 years. Your 18-month figure for the measurement of success is not a good measure at all.

Keith Devine: I respectfully disagree with you about whether we are in the risk business. We are lending more and more funds on an unsecured basis to new and existing customers in situations in which we are looking at that business as a viable proposition that can afford to repay funds over three, five or 10 years. We loan that money without any explicit guarantees—there is no guarantee that any company that we lend to will still be there in 10 years' time.

We are in the risk business. We seek to minimise the risk for the benefit of both the bank and our customer. Again, I reiterate that it is not in the interests of the customer to borrow money that it will not be in a position to pay back.

Tom Mason: Yes, but what I am looking for is whether there is a model that provides an alternative to lending money with interest—perhaps some equity-type investment. What about

a sales levy system? The old National Research Development Corporation used to invest in companies for research and development and get its return on a sales levy basis. Is that a possible alternative model?

11:00

Keith Devine: There may be alternative models available, but I am perhaps not in the best position to answer that question.

Tom Mason: Does anybody have a model that is an alternative to what is fairly standard?

Andrew Dickson: It is horses for courses and what is relevant to the business at that point in time. Equity investment might well be appropriate for a business but the owners would have to relinquish part of the control and ownership of the business. Generally, we find that new businesses might end up accessing microfinance, then moving on to the debt finance that we can supply and, further down the line, equity might be appropriate for them. Other forms of finance are available from the bank, such as hire purchase or invoice finance—that broad gambit of finance that is available. I am not particularly up to speed with the sales release model that you referred to.

Tom Mason: At the moment, I see a situation where there are plenty of people who want to start and it is a question of moving them through and helping them continue at a greater rate than we do. The number of actual sustainable entrepreneurial businesses has not improved dramatically. It is slightly better than it used to be but it is certainly not anywhere near where it needs to be.

Professor McEwan: I do not think that there are any new models. A business can borrow money, it can sell equity in return for cash, or it can be given money in the form of a grant. The innovation of any model that we create will be around how we blend those means of raising money. The Scottish encouraging dynamic growth entrepreneurs, or EDGE, fund is an example of how there can be different partners with different objectives. The Scottish Government is in there because it wants the economy to be better. The Royal Bank of Scotland is in there because it sees a commercial return. There is a welding together and we need more products that are cleverly blended to meet the needs of our current entrepreneurs. I think that we will see not radical new models, but amalgamations of previous models.

John Mason (Glasgow Shettleston) (SNP): I will build on the previous questions. I hear that business gateway is being done in different ways around the country and that Aberdeen and Aberdeenshire are hugely successful. If I

understand correctly, that area contains 8 per cent of the population and either 25 per cent, or was it 14 per cent, of start-ups—I think both figures were mentioned?

Professor McEwan: In the last few years it has fluctuated between 13 and 14 per cent of the 10,000 start-ups, so that area contributes between 1,300 and 1,400 of the 10,000 start-ups.

John Mason: That creates a question for me. As I understand it, about £15 million is being paid into core services for business gateway. How does the committee measure whether Aberdeen really is more successful than Lanarkshire, or whether Glasgow's model, which is a bit more joined up, is better or worse? Can we measure it or do we have to say that, because Aberdeen is so different from Lanarkshire, we cannot compare them?

Professor McEwan: The comparison would be down to your best judgment. We had little interest in the Scottish Government target. We were given a target by the local authority, but for years it just constrained what we did: "what gets measured gets done." As a country, that shows no ambition at all. We wanted to demonstrate what would happen if you removed those barriers and did the things that needed to be done to create an entrepreneurial culture. What would happen if we took the lid off? We have taken the lid off for four years and we can demonstrate what has come of that. I would love you to see and experience that but it would be up to you to decide—

John Mason: I am open to visiting Aberdeen. You say you have taken the lid off. Do you have a contract with the local councils?

Professor McEwan: Yes.

John Mason: So, that lid has been removed but we have also heard the opposite, which is that if there is no contract with a third party, such as your organisation, then the council takes it in house and cuts the target to one that it can comfortably achieve. That does not sound very positive.

Professor McEwan: Again, I will leave you to be the best judge of the outcome of that. We explained to the local authority that we understood that it had demographically assigned us a target, but that we thought that by focusing on doing the right things, the target would become the baseline. This year, come the middle of December, we will have met the Scottish Government's target and we have still got to go through until April.

The local authority began to panic that we were going to close up shop and stop delivering the service. That is not what we are here for. As an enterprise trust, we exist to continuously improve. We are determined to deliver more start-ups of a higher quality this year than we did last year, and we will do so again next year. Whether you will get

that sort of determination and ambition in a local authority is a question that you need to ponder.

John Mason: Thank you.

I suppose that measuring something like a start-up is relatively straightforward. However, we have also heard evidence that, in some areas, there is continuing support. A business can grow quite big, and business gateway will still be giving help. The same might be true of the banks or anyone else, and that is more difficult to measure. Can we measure all that satisfactorily?

Keith Devine: We do not see any data from business gateway, so we are a little blind when it comes to measuring the success and the bang that we get for our buck. Could that support be measured? We would first have to establish the important things to measure, such as the survival rate and how many new jobs are created. Again, it would be for you to decide what was important. Could success be measured? I would argue that it could.

John Mason: Have you asked business gateway, either locally or nationally, for that kind of information?

Keith Devine: No, we have not.

John Mason: A local business gateway has told us that it was disappointed because it was trying to give advice to small businesses but the Royal Bank of Scotland came into the area, did not speak to business gateway and started up its own advice service for local businesses. There was no relationship between the two. Is there room for improvement in that area?

Keith Devine: Undoubtedly. If that is the feedback that you have been given, I apologise on behalf of the Royal Bank of Scotland. We do not seek to come into an area and take over; we want to be part of the local ecosystem and work collaboratively. Although we recognise the things that we do well, we also recognise the events or services that a business gateway can offer and make our customers aware of them so that they get the benefit of both worlds.

John Mason: Thank you. Mr Dickson, do you want to add anything?

Andrew Dickson: I probably cannot add to what has already been said. For me, it is about the journey. Where are we now and where do we want to end up? We need to be able to measure what we are doing, how much money and staff resources we are putting into the business gateway services and, ultimately, what difference we are making. If we are not making any difference, why are we doing all of that?

John Mason: Can we measure those things? Can we compare one area with another?

Andrew Dickson: That is probably a question for business gateway. I can tell you what Business Loans Scotland measures, and I can tell you what we are doing in each of our geographies down to the local authority level. I know the inputs of Business Loans Scotland and I know how many businesses we have supported. We monitor our businesses for 12 months after the investment goes in. I can tell you how many jobs those businesses have created in that period, and I can tell you how much their turnover has increased or, sometimes, decreased. I can give you that information and, yes, we need to be able to measure what we are doing.

John Mason: My final point is about the strategic board. I do not know that it is going to have a specific relationship with the business gateway, but could it create a more joined-up business support environment?

Professor McEwan: We are a small country—albeit a fantastic small country—and we could do with anything that would allow us to collaborate more. The concept of the overarching strategic board bringing together the key organisations to work more closely together cannot be a bad thing.

Down at the business support level, the effect is more diluted and we could learn lessons about how we collaborate to create the ecosystem, which we are doing. I observe what the strategic board is doing only in relation to Scottish Enterprise and the Scottish Further and Higher Education Funding Council—it is allowing them to integrate their services more, which is exactly what should happen. Down at the business support level, what the board does is not particularly apparent to most people, but I am sure that it is doing good things.

John Mason: It is early days yet.

Jamie Halcro Johnston (Highlands and Islands) (Con): I have a quick question for Keith Devine; I should say that I am a partner in a small business that banks with RBS. According to the small business survey, 60 per cent of businesses use RBS or the Bank of Scotland. There is also a lack of switching in the market. Given that quite a lot of branches have closed in the past few years—I will speak in a debate tomorrow on the current round of Bank of Scotland closures—what analysis has been done of the positive or negative impact of branch closures on the delivery of business support, particularly in rural areas such as the Highlands and Islands, which I represent?

Keith Devine: We are proud that one in three Scottish businesses has chosen to bank with us and to stay with us. The market is competitive, so the fact that those businesses continue to thrive and to choose us as their banking partner tells us

that, in the main, the services that we offer our customers meet their needs.

Branches have closed, but we have in the past five years trebled the number of points at which our customers can do basic banking transactions—paying in and taking out cash—through our relationship with the Post Office and through our network of mobile branches, which drive 8,000 miles a week across Scotland.

We have continued to innovate—we use our digital services well. Irrespective of whether customers are in the north or the south of Scotland, we ensure that they have access to our experts through our 65 relationship managers, who are on the ground; through our eight business growth enablers, who run events and connect people; and through our 600 business managers, who are employed in our contact centre to answer customers' questions or refer customers to a relationship manager if they have phoned outside normal banking hours.

Customer demand for our branches has reduced, but we still seek to support customers in Scotland in a variety of ways. The north of Scotland has a higher proportion of agriculture businesses, so we have a dedicated team of agriculture managers there; in the central belt, we have real estate, finance and healthcare specialists. We have experts in local areas who can help local businesses, and we are keen to speak to any business that wants to engage with us.

Jamie Halcro Johnston: In rural areas, business advice and support are increasingly being provided over the phone rather than face to face.

Keith Devine: Sometimes, contact will be on the telephone, but we task our relationship managers with going out to our business customers' premises, which is more convenient for customers. We also get a better insight into a business by pitching up to see the premises, to see what needs to be done and to have discussions in a place that is convenient for the customer instead of dragging the customer into a bank branch.

Jamie Halcro Johnston: I will widen out my next questions to all the panellists. We have talked a lot about business support and advice, part of which is about skills—employees who have the requisite skills are needed to grow a business. How important are skills in the advice and support that you give? How easy is it for you to direct businesses that come to you to find the skills that are required?

Professor McEwan: Do you mean the skills in a potential workforce or the skills that employers need to grow their businesses?

Jamie Halcro Johnston: I am talking about the skills in a potential workforce.

11:15

Professor McEwan: As a business begins its journey, it needs to get to a certain point. Sadly, we reckon that only one in 12 start-up companies becomes of significance—by “significance”, we mean a company having eight or nine employees, for example. We need to address that problem by developing the skills and attributes that the entrepreneur requires. In Scotland, we have an issue around how we educate entrepreneurs.

Inevitably, there comes a point at which a company needs to create a workforce. That is another big step for entrepreneurs, and it is important that they get the right people at that point. Collaboration with other organisations becomes important in ensuring not only that entrepreneurs go through the correct mechanisms in how they employ but that they get the right people. The first few employees are important in that process. Companies tend to go down the conventional route of advertising positions when they are looking for staff. The other end of the scale is how we use the developing Scotland's young workforce strategy to create a workforce that is ready to enter such businesses. Those two aspects tend to meet reasonably successfully, but there is always scope for more collaboration.

The point at which a company first takes on employees is a very important point in its development. If it takes on one person, that might be the only time that the business ever doubles in size, so not employing the right person can lead to all sorts of anxieties. The issue is more about the entrepreneur and how it selects staff than about how it accesses the right skills, which is more important further up the growth chain.

Keith Devine: We recognise that the quality of our people is what differentiates us from our competitors, which is why we have continued to invest in our people. All our relationship managers go through an accreditation programme that is run through the Chartered Institute of Bankers in Scotland, and our business growth enablers are also externally accredited. We have appointed community bankers, particularly in rural areas, and we have techsperts in each branch to help customers with technology.

We look at the needs of individual markets. If we are in a rural area, we know that we need to provide expertise in agriculture, so we will have dedicated relationship managers who specialise in that area. Those managers will know what is happening in the industry—they will attend the local mart, for example, so that they can see what is happening to prices, and they will speak to

multiple customers on the same day. That service is provided to ensure that our customers know that we are there for them in their time of need and that we are experts in the markets in which we operate.

At Gogarburn, we have an army of experts at our disposal. If a customer wants to talk about Brexit and has a question that our relationship manager cannot answer, we can go to our economics team, which will be happy to have a one-on-one conversation with that customer.

Andrew Dickson: About a quarter of the businesses that we support by lending to them are new-start businesses. Such businesses are, in effect, starting from zero. They have their business plan together and they are looking to get the funding that they need to get their business up and running. Invariably, we want such businesses to employ people. Three quarters of the businesses that we support—I would describe them as existing businesses—will go on to create, on average, four new jobs per business in the 18 months to two years following our support.

Business Loans Scotland is a specialist company. In providing the funding that a business needs, we look to the advisers of the business to ensure that the business can tap into the relevant resources and services that are available. We talk about recruitment and skills, and we ensure that the business has in place the necessary policies and procedures as it becomes an employer and takes on additional members of staff.

The Convener: I thank all three witnesses for coming in today.

Subordinate Legislation

Diligence against Earnings (Variation) (Scotland) Regulations 2018 (SSI 2018/345)

11:19

The Convener: Agenda item 3 is consideration of the Diligence against Earnings (Variation) (Scotland) Regulations 2018. The regulations will raise the threshold beneath which deductions may not be taken from earnings by arrestment and will increase the sum that is protected from arrestment in a bank account. Does any member have any issues that they wish to raise?

John Mason: I support the threshold being raised; I do not have a problem with that. However, there is the wider issue that we have been looking at recently about the variety of ways in which people can have their debts managed. There seem to be differences in the system; it does not seem to be very joined up. Under one system, a person is allowed one amount to live on and, under another system, the amount is completely different or calculated in a different way. It would be useful to raise that matter with the Government, either in writing or when the minister comes to the committee. I know that the matter is complex, but we could discuss the wider issue about whether it is possible to make the system a bit more joined up.

The Convener: Is the committee content with the instrument?

Members indicated agreement.

The Convener: The instrument comes into force, subject to that caveat.

11:21

Meeting continued in private until 12:49.

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