OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Energy and Fair Work Committee

Tuesday 15 January 2019

Session 5

The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 15 January 2019

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ECONOMY, ENERGY AND FAIR WORK COMMITTEE

2nd Meeting 2019, 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:

Michael Cannon (Scottish Enterprise)
Neil Francis (Scottish Enterprise)
Sue Kearns (Scottish Government)
Elaine Morrison (Scottish Enterprise)
Jane Pollock (Scottish Enterprise)
Neil Ritchie (Scottish Government)
Paul Wheelhouse (Minister for Energy, Connectivity and the Islands)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy, Energy and Fair Work Committee

Tuesday 15 January 2019

[The Convener opened the meeting at 09:46]

Decision on Taking Business in Private

The Convener (Gordon Lindhurst): Good morning. Welcome to the second meeting in 2019 of the Economy, Energy and Fair Work Committee. I remind everyone to turn their electronic devices to silent mode.

Agenda item 1 is to ask the committee to decide whether to take items 4, 5 and 6 in private. Are we agreed?

Members *indicated agreement.*

Budget Scrutiny 2019-20

09:46

The Convener: We turn to budget scrutiny. Paul Wheelhouse, the Minister for Energy, Connectivity and the Islands, is here with Sue Kearns, who is deputy director, and Neil Ritchie, who is head of energy company services, in the consumers and low carbon division of the Scottish Government. I welcome the three of you and invite the minister to make a brief opening statement.

The Minister for Energy, Connectivity and the Islands (Paul Wheelhouse): As this is my first appearance at the committee in 2019, I wish all committee members a happy new year, if it is not too late to do that.

I am pleased to be here today to support the committee's draft budget scrutiny. Scotland is an energy-rich nation, and its wealth of energy resource provides significant opportunities for supporting sustainable economic growth and our national wellbeing.

A successful energy system not only provides the means to deliver against the energy trilemma so that we have secure, reliable and affordable low-carbon energy sources, but makes important contributions to Scottish Government priorities including economic development, tackling fuel poverty and responding to climate change.

We have just passed the first anniversary of publication of our first energy strategy for Scotland. In the spring, we will publish the first annual energy statement showing progress to date. I intend to publish our electricity and gas networks vision statement later this month, which will take into account the latest data.

The energy strategy sets out our ambitions with regard to energy generation and use. Not all the relevant powers are currently devolved to the Scottish Parliament, but through financial support, planning policy, our wider influence and a range of devolved policy responsibilities, we have significant scope to champion the energy agenda. I look forward to updating the committee on delivery of Scotland's energy strategy.

One strand of the strategy is the ambition to establish a public energy company. I welcome the committee's recent constructive report and assure you that we will take your views into our thinking as we go forward. The public energy company will be at the centre of the energy strategy's delivery. It can be a vehicle for delivering and supporting many of the strategy's outcomes, including tackling fuel poverty, supporting economic development and contributing to mitigating the risks from damaging climate change. Through its public sector ethos, it can be a way of positioning the consumer and communities, rather than profit maximisation, at the centre of our energy transition.

We have engaged with local authorities to develop that approach; I am keen that we develop the concept jointly through partnership and co-design with our local government partners. We intend that the completed outline business case will add substance to our development of next steps and a substantive proposal for consultation. It will allow us to assess the commercial, financial and economic case, which is essential, given the recent dynamics of the energy supply market. However, given the potential outcomes, we cannot wait until 2021 to see whether the current price cap is able to deliver improvements in respect of fuel poverty, and I have concerns that it has led to unintended consequences.

To reiterate, I am grateful for the committee's positive and constructive report, and I look forward to working with you to deliver the potential from Scotland's considerable energy opportunities. I am aware that there are a range of interests today with regard to the budget, and I am glad to answer questions as best I can.

The Convener: If the impression of members of the public is that the public energy company will be just another quango that costs taxpayers' money, what will be your response?

Paul Wheelhouse: I am always mindful of such concerns. Since the work that was done by then finance secretary John Swinney to rationalise the number of quangos and non-governmental organisations, we take steps to create new bodies with great care, so that we do not create unnecessary new bureaucracy.

The intention is to deliver on the twin aims that the First Minister set out in October 2017—to add value in the context of the fuel poverty agenda and to contribute to economic development. The outline business case will be critical in establishing the role that a public energy company can play in what is quite a busy landscape in terms of the number of energy providers that are available to customers.

With regard to the different role that the company will play, we want to take an approach that is not about profit maximisation, but is about delivering the best result and a good service for customers, and doing the best that we can to integrate efforts on energy efficiency. We hope that we can carve out an important niche in the market, that we can deliver improved services and that we can, by internalising profit margins, lower prices for customers.

Gordon MacDonald (Edinburgh Pentlands) (SNP): I want to ask about energy targets for community and locally owned generators. The Government had a generation target of 1GW by 2020 and 2GW by 2030, and I understand that the next annual report of the Energy Saving Trust will say that we hit 706MW in June 2018. Is the Government still on track to hit its targets?

Paul Wheelhouse: We have already increased the ambition in the targets for 2020 and 2030. Originally, we had a target of 0.5GW, but we exceeded it, so we upped the target. Mr MacDonald is absolutely right that, at present, we are at about 70 per cent of the 2020 target.

Although we have had a welcome 6 per cent increase in the past year, we need to increase the rate of growth of community renewables, and to do so against the backdrop of a changed UK-wide regime for feed-in tariffs. We are keen to feed in to the UK Government's consultation on support for exporting energy from small and community generators to the grid, because we want to ensure that there are adequate support mechanisms to stimulate such activity. That is important to us and the communities that have developed generation.

We are operating against headwinds, but we are optimistic that we are on track to deliver significant growth. We are aware that there is about 882MW in community and locally owned projects in the system—under the definition, not all are community projects—which takes us almost up to 1.6GW, with the 697MW that we know about, which I hope we will soon exceed. We still have work to do to get to the 2GW target by 2030, and we are under pressure with the revised 2020 target and the headwinds that I mentioned, but we are pressing on regardless and doing the best that we can to stimulate development through the community and renewable energy scheme. It is very important to us.

Gordon MacDonald: In 2015, the United Kingdom Government announced that it would end feed-in tariffs, which you mentioned, by April 2019. Aberdeenshire Council has said that reductions in feed-in tariffs have meant that it is difficult to make wind and hydro projects financially viable. What impact has that announcement had on the pipeline of projects?

Paul Wheelhouse: As with all such changes of policy, that has created a bit of uncertainty for those who have been planning projects. I know that there was great concern about it. On behalf of the smaller project and community sector, we fed into the UK Government's work on feed-in tariffs that it would be a mistake to lose such projects. We have made inquiries into whether there is any scope for the Scottish Parliament or Scottish Government to do something of our own. We will try to discuss that with UK ministers.

The UK Government has announced plans for a guarantee scheme for revenues for local and community projects exporting to the grid, and will be consulting on it. We will feed into that consultation and try to influence the scheme as positively as we can for Scotland. There is no doubt that loss of the feed-in tariff, which was a popular mechanism that is still used in similar schemes around Europe, is potentially damaging to the interests of the community sector and will present a headwind for us. We do not have direct control over the intervention, because it is a reserved power, but we are trying to influence as best we can and to make sure that Scotland's needs are represented in the discussions that the UK Government takes forward with the industry.

Gordon MacDonald: The feed-in tariff will end in April 2019. Has there been any indication of when any new scheme will come in? The trade press on renewable energy has suggested that it might not come in until 2025.

Paul Wheelhouse: There is certainly concern about delay in implementing a successor scheme. If I may, convener, I will bring in Sue Kearns, who is close to the issue through negotiation with officials in the Department for Business, Energy and Industrial Strategy, to comment on the detail of the consultation.

Sue Kearns (Scottish Government): The consultation has just gone live, so it is very young. We will have to take time to look at it. One important thing that has not been spoken about at the committee is the opportunity for shared ownership. That is one of the focuses that we have put into the community and renewable energy scheme. With commercial schemes still on-going and developing, we want to make sure that communities get a chance to buy in to those schemes. That is where there is a huge prize for community ownership in the future. We are working hard to encourage developers to allow communities those opportunities.

Gordon MacDonald: Thank you.

Paul Wheelhouse: I will add briefly to what Sue Kearns said. We expect that by 2020-21 half of all planning applications will include a shared-revenue element. In my discussions with developers, most are looking at shared-revenue options for communities at local level. That may, for example, mean 10 per cent or more of a project being owned by the community. We would be keen to support that through CARES, through which we fund communities for feasibility work and pre-investment advice. We can potentially access funds through the energy investment fund, to support communities with the capital funding that they need to invest in projects.

The ability to have a shared-revenue element in a project increases the sense of ownership, both literally and in terms of the effect of a project on the community: it feels more satisfying from the community's point of view and from a policy point of view. It is more satisfying for us to see projects in which there is significant community investment and, therefore, community benefit from the revenues. Discussions with developers are encouraging.

It is not always possible to find a local community group that is willing to take on a share in a renewable project. We can help, through Local Energy Scotland and CARES, to build local capacity to take that on. The committee will appreciate that, where the population is sparse or communities already feel overstretched by the various groups that they are involved with, there can sometimes be reluctance to take on such a major capital project. We will do everything that we can to support communities to take the option.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Figures that we have seen show that community energy represents a small proportion of the total, at 11 per cent. What steps are you taking to address that?

Paul Wheelhouse: That is important, and we need to be open and honest about the figures. If the committee does not already have it, we can provide a breakdown of the total figure of 697MW that I mentioned.

Mr Beattie is right that 11 per cent of the total is community energy, so it is a relatively small proportion. There are some significant projects in the pipeline, such as Viking Energy Shetland LLP. I know that it is not universally popular—I am not pretending that it is—but it is half owned by the community, so there could be in excess of 300MW of community ownership in that one project alone, which would be a significant benefit.

We will continue to support communities, through CARES, to develop their renewable energy projects and to take a stake in commercial projects through shared or overall ownership, where it is economically viable for them to do so. We are mindful of the transitional phase that we are currently experiencing, following removal of the UK Government subsidies through the feed-in tariff, and the likely complexity of projects coming forward.

10:00

Through CARES and Local Energy Scotland, we will continue to work as closely as we can with communities and will tailor support and advice accordingly, with a view to ensuring that they remain engaged in our low-carbon transition and meet their long-term needs and aspirations.

The fact that projects can have a really significant regeneration impact at local level is beginning to land with UK ministers, too. I am sure that members have all seen good examples of projects in which communities see investment in physical infrastructure and in the skills of local young people who have been supported. For example, in Tolsta in the Western Isles there is additional support to make it easier for students to go off-island to study on the mainland. Such projects help social and physical regeneration in communities in very practical ways.

Colin Beattie: Which technologies have the most potential to transform community energy?

Paul Wheelhouse: At this moment in time, the answer is a combination of technologies. Wind energy is extremely cheap compared with other generation sources, which is good for the consumer who, as the buyer of electricity, gets relatively cheap electricity. However, wind is also a stable and known technology that is regarded as being relatively low risk from a finance point of view. It is therefore easier to attract finance to community projects that involve on-shore wind, for example.

Solar energy is also a good technology for communities. It has relatively good returns on investment based on the low cost of the energy. There is a ready market for energy that is keeping the overall price for consumers down. More expensive technologies, whether they are new renewables technologies or nuclear, for example, are relatively expensive per megawatt hour. Clearly we would not expect a community to have a nuclear power station, but onshore wind is a really good technology for many projects across the country.

Scotland also has almost 80 per cent of small-scale hydro projects, mainly because our topography and terrain lend themselves to such projects. We also have a strong culture of communities pursuing such projects, which have been good earners for them, particularly in the west and north of Scotland.

We are keen that the UK policy changes do not dent the very strong profile that we have in community-owned onshore wind and hydro projects.

Colin Beattie: Do you consider that the resources that are available are being appropriately targeted to ensure maximum development of the technologies.

Paul Wheelhouse: We are doing our best to ensure that we target resources where they will have the biggest impact. Clearly we are also trying to support emerging technologies including wave and tidal power, which we believe will have particular relevance for communities in our coastal and island areas in the longer term. In combination with battery storage, projects could become viable through the concept of arbitrage.

Projects are being taken forward by Nova Innovation, which is based in Leith. In the Shetland Islands, a project is combining a Tesla grid-scale battery—the first to be installed in the UK, I believe—with a tidal project. That might demonstrate that a significant breakthrough could be made in terms of its economics. As production volumes get up to Henry Ford-level economies of scale in the manufacturing process, the levelised cost of energy—the cost per megawatt hour—will tumble as more machines are made and the capital cost of equipment drops

At this moment in time, wind, solar and hydro technologies are the mainstays of community projects, but I hope that in the future the newer technologies—tidal power, in the early stages, and wave power in the longer term—will also prove to be attractive to communities. On remote island wind, we have significant community interest in the Viking Energy Shetland project and in projects in Orkney and the Western Isles.

There is development across a range of technologies. My colleague Sue Kearns would like to come in on that point.

Sue Kearns: When it comes to future projects, we should also think about some of the innovation schemes that we are funding that involve local energy systems. Many community groups are involved in such projects, which can be quite complex. I must be honest and say that we need to look for commerciality in the different forms of such systems. We are not there yet, but they hold potential for the future.

The minister mentioned the combination of a storage scheme with marine energy. We are looking at combinations of technologies rather than at single technologies. I think that such combinations are the answer for the future; they will bring in revenue locally.

The other side is heat and energy efficiency. Some community groups that already have renewable electricity schemes have an appetite for getting involved in Scotland's energy efficiency programme—they want to get involved in heat and energy efficiency and to find out what that could bring to their communities. It is important that we encourage that interest.

Paul Wheelhouse: That was helpful.

I have an additional point to make, which partly answers the convener's opening question about what a public energy company could do that is different. Although we do not have firm plans on that, I like to think that in the longer term, through progression of a project with local government, there could be scope for selling the electricity from local energy generation to our customers through the white label company process. If we develop a public energy company, providing a market for such community-owned local energy across Scotland could be a way of substituting for the lack of a feed-in tariff. However, we are at the stage of looking at whether that is a possibility; we do not have a firm answer, as we are still early in the process. I would like to find out what a public energy company could add in supporting such local generation.

John Mason (Glasgow Shettleston) (SNP): You mentioned the proposal to have a publicly owned energy company. Is there anything in the 2019-20 budget for that? I realise that we are at quite an early stage in the process.

Paul Wheelhouse: We are certainly providing support for the development of the business case, but it would be wrong to suggest that a significant funding stream for that is identified in the budget. As we take forward the answers that are developed by the consultants in the business case, we will have to provide identified funding streams to implement the outcomes of the study.

John Mason: So, for 2019-20, that work would be covered by the normal cost of administration.

Paul Wheelhouse: We are dealing with the cost of developing a business case. Until we get an answer on whether a public energy company is a viable project for the Government to proceed with on behalf of the people of Scotland, we will not identify a specific funding strand—that will probably be in next year’s budget.

John Mason: So it will probably be in the budget for 2020-21, after which it might increase. Would there always be budgetary input into a publicly owned energy company, or might it be revenue neutral in the longer term?

Paul Wheelhouse: I am aware from my on-going discussions with established energy providers that margins are pretty tight. We would not seek to operate a model that was an albatross around the neck of the taxpayer; we would want such a company to cover its costs, while operating on a not-for-profit basis, as the First Minister has set out. Instead of funds leaving the business in the form of returns to shareholders, those resources could be retained and channelled back into the company.

Through the development of a business case, we will look at whether a public energy company is a viable proposition. We would not want to land the people of Scotland with something that was a significant drain on public resources—we would want it to be able to wash its face, but in such a way that provides additional value for consumers in tackling fuel poverty.

John Mason: That is fine. I just wanted to find out whether it would have an impact on the budget, and you have answered that.

Dean Lockhart (Mid Scotland and Fife) (Con): You mentioned that the viability of a public energy company is still being reviewed. What timeline are you working towards in establishing whether such a company would be viable?

Paul Wheelhouse: We are developing the outline business case. I ask my colleague Neil Ritchie, who is in charge of that, to give details of when the consultants will come back to the Scottish Government with their initial report, the findings of which we intend to share with the Parliament.

Neil Ritchie (Scottish Government): The timeline that we are working to is that we will receive the consultants’ outline business case towards the end of March. We will publish that along with a consultation to seek wider views on the conclusions of the report and our assessment, along with that of local authorities, of questions such as what the energy company should and should not do. We want to get clarity on the vision, which is a point that comes back to the committee’s report. We need to have a very clear objective for what we are trying to do.

Paul Wheelhouse: It is worth emphasising to Mr Lockhart and other colleagues that it is not just about warm words and that we are keen to work with local government on that. Its view on the attractiveness of the idea to it and its partners will be critical to our decision on how we progress.

Dean Lockhart: Based on the analysis that you have done so far, how comfortable are you that it is a viable proposition?

Paul Wheelhouse: Obviously, we will not know in hard terms until we have the report from the consultants and, even then, we will need to seek feedback on it. However, we believe that there is an opportunity to work with local government. A number of local authorities are either in the process of or have voiced an interest in creating their own local energy supply companies. For example, Highland Council is progressing plans, Aberdeen Heat and Power is already well established and other local authorities have an interest in the issue. We are trying to take advantage of the interest in the issue in local government and to work with our local government partners to create an overarching brand that is bigger than the sum of its parts. We could work in partnership with local government to use the marketing power of a national brand to drive activity on local energy supply companies.

The concept is sound; certainly, the committee’s report seems to have determined independently that there is potentially an attractive model to take forward. However, we will not know until the consultants come back with the report. We will have to trust their professional judgment as to the commercial viability of the proposal.

We would have to acknowledge the very challenging environment at the moment for local energy supply companies. As I am sure that you are aware, a number of younger companies have gone to the wall in recent months, which is a concern to us. We understand why the UK Government has brought in the price cap in the market, although we are concerned that there may be unintended consequences, and we have raised those issues with Ms Perry and her colleagues and asked them to be mindful of the impact that the cap is having on the market. Obviously, we must take into account the impact of the price cap and other market factors at the time when we make a decision, whenever that is.

Dean Lockhart: As Mr Wheelhouse mentioned, public energy companies elsewhere in the UK have struggled: Portsmouth City Council has recently decided to abandon its plans and Bristol Energy posted a loss of £8.4 million last year, which shows that such companies come at a cost. What lessons will the Scottish Government take from the challenges that public energy companies face elsewhere?

Paul Wheelhouse: The first thing to say is that we are trying to learn from that. I know that Neil Ritchie and other colleagues in the team have been engaging with Robin Hood Energy and other companies that are up and running in the UK to try to understand the challenges that we face. We are learning a lot from our interaction with the companies in Scotland that have encountered difficulty and that we are trying to support. We have had recent issues with Spark Energy and other providers that are finding life pretty tough. Even the big six suppliers are finding some of the market conditions tougher than they were in recent years, because margins are being squeezed. We are very much alive to that.

To address Mr Lockhart's point and Mr Mason's point, if we proceed with a public energy company, that will be on the basis that it is not to the detriment of wider public funding commitments. That is a calculated decision that we will have to make once we have the full information before us. I reassure Mr Lockhart and the committee that we are mindful of the need to act responsibly and to take sound decisions. We will do all the due diligence that the committee would expect of us before we take any decision.

Andy Wightman (Lothian) (Green): I have a brief question that picks up on what Mr Wheelhouse said earlier about community shares in commercial schemes. To be clear, is that a new element that the Government is proposing for CARES or is it an element that can already be supported?

10:15

Paul Wheelhouse: Mr Wightman is right to raise that. CARES is already active in that space and is advising communities, but we want that aspect to grow. We should reflect on the fact that, in the current environment, there is no proposed new pot 1 option for established technologies, including onshore wind projects, from the UK Government, which means that we have to be mindful that the financial environment has changed significantly for onshore wind developers. Although there are a number of means by which they can address that—through larger wind turbines, the length of planning consents being extended to give more investor certainty and other measures that can be taken forward—we believe that one area in which we can continue to see significant community benefit in the broadest sense from onshore wind projects is by the community taking on a shared revenue model.

That would perhaps be a more attractive alternative for the developer, but there is a sharing of risk for the community involved, and we have to be careful to give communities the best advice possible so that they do not unnecessarily take on risks that might damage their interests. Assuming that that is a positive position for a community, it could be supported with projects that allow it to co-invest with a developer. I hope that, in many cases, communities will do the entire project. We have seen great examples of that across the country. There will also be circumstances in which a community will co-invest with a larger developer or landowner in the local area. We would be keen on that.

We are currently consulting on revisions to the good practice principles that we have established, which are largely associated with the figure of £5,000 per megawatt, which members may be familiar with. We also have a community register so that developers can post what community benefit they provide to communities. We believe that a shared revenue model may be an attractive model for developers rather than the traditional means of supporting communities through community benefit payments.

Andy Wightman: I wanted to ask a question about fuel poverty, energy efficiency and the warmer homes Scotland scheme, but I am aware that they are not in your portfolio. I get frustrated that energy is split across portfolios. Warmer homes Scotland has a £3 million budget cut, from £27 million to £24 million. In the context of a broader budget that is increasing, I wondered why that was the case.

Paul Wheelhouse: Obviously, the detail of that will be for Mr Stewart. We regard energy efficiency as a very high priority so, across the piece, we are spending half a billion pounds in total on energy efficiency measures. I appreciate that that does not deal with the specific issue that Mr Wightman has raised.

Andy Wightman: I will raise it with Mr Stewart.

Paul Wheelhouse: That would be more appropriate, as he is responsible for that.

Andy Wightman: I think that you indicated earlier that the next annual report on CARES is due to be published imminently. Is that next month or in two months?

Paul Wheelhouse: I ask Sue Kearns to talk about the publication date.

Sue Kearns: To be honest, I am not sure about that. You are probably right that it is imminent. We certainly have the figures.

Andy Wightman: I had difficulty in getting hold of data from the Energy Saving Trust, but I eventually got a table of all the recipients in the schemes. Will that table be routinely published?

Sue Kearns: You probably had difficulty because of data protection. Some of the information has to be redacted, as individuals own some of the schemes. That was probably the issue, but I will look into that for you to see what can be published.

Andy Wightman: Thank you.

In a report by the Energy Saving Trust entitled "Community and locally owned renewable energy in Scotland at June 2017", the definition of "locally owned" in relation to farms and estates is that it is

> "where the person or organisation listed as the applicant in the planning application gives their address as being in Scotland."

The report goes on to say:

> "Estate ownership is often difficult to establish, but where possible publicly available information has been used to establish whether estate owners are normally resident on the estate where the installation is to be built."

From looking at the data, I found a company that is owned by an offshore company, an estate that is owned by a family in the Netherlands, quite a large farm that is owned in Lincolnshire, another estate that is owned by someone who lives in Lancashire, and Leicester was mentioned. How rigorously do you explore whether organisations are locally owned?

Paul Wheelhouse: I do not know the answer to Mr Wightman's question on the definition. I take the point entirely. I know that Mr Wightman has a long track record of being very good at digging into that data, so I entirely trust what he has said as being accurate.

On farms and estates, I think that 280MW in total is assumed within the 697MW that I mentioned. That was at December last year in Energy Saving Trust figures. I am not sure whether that will be updated to 706MW, which was referred to earlier.

I take Mr Wightman's point entirely. Obviously, the definition of "community and locally owned" is quite broad in that it does not focus purely on people who live locally and are in the community on a day-to-day basis. It is clear that we need to have a look at breaking that down further, if we can, to show the extent to which there is maybe a loss of revenues out of the country, if that is the point that Mr Wightman is making.

Andy Wightman: The definition of eligibility says that, normally,

> "the person or organisation listed as the applicant in the planning application gives their address as being in Scotland."

However, the applicant in a planning application may not bear any relation to the owner. Also, the definition implies that information is

> "used to establish whether owners are normally resident".

I am wondering why there is a discrepancy between the definition and some of the recipients, and whether you will tighten up either the process of assessing eligibility or the definition, or both.

Paul Wheelhouse: I am happy to come back to Mr Wightman on the important point that he has raised. We do not want the policy intention to be undermined in any way by poor policing of that point. I am not saying that there is poor policing, but I will look into that and see whether we can come back to the committee on it, as it seems to be of interest.

Obviously, our intent is to generate projects that benefit the local community and from which we see the returns on the investment having the desired impact on economic development in the local community. If that is not happening or is being undermined in any way by the point that Mr Wightman has raised, I am keen to look into it. I will be happy to discuss the detail with him so that we can dig into it.

We can liaise with the Energy Saving Trust over how to record the information to ensure that it is accurate. That is not to criticise the people who are involved in those projects in any way, but we want to ensure that the policy intent is being delivered. To an extent, if there is an overseas landowner who has a local agent who appears as the local person in the process, as long as the benefits come back to the community, that would deliver the policy intent. However, rather than come up with an inaccurate point relying on the high-level statistics, we can drill down into them and try to identify whether there is a problem that needs to be solved.

Sue Kearns: Can I ask for clarification about the organisations that Mr Wightman identified? Are they CARES applicants or are they just on the EST list as farmers or estates that have developed schemes? If they are just on the list because they are on the overall register as being within the 700MW, they may not be recipients of CARES support.

It is under CARES that organisations have to show that they are resident in Scotland, and farms and estates have to provide a very high level of community benefit in order to qualify for that support. However, if they are not getting any support under CARES and are just developing their own scheme, it is up to them where they live. I am asking for clarification about whether it is an issue under CARES.

Andy Wightman: It is not clear whether they are all CARES applicants. I concede that point. I am using a database called "COLO Map Extract", which is data that the Energy Saving Trust is collecting.

Sue Kearns: Yes—that is the full data. We would have to double-check whether those particular schemes got support under CARES. If they did not, we have no control over whether they are developing schemes and where those people live; that is a planning matter. However, if they apply for CARES support, that is when the requirement comes into effect.

Andy Wightman: I take that point, which is a useful clarification. Nevertheless, in a few cases, regardless of whether they get CARES support, the definition seems to be at odds with some of the categorised installations on that list. That is a data-capture issue, never mind the CARES point.

Paul Wheelhouse: We will happily look at that and see whether we can come back to the committee with any detail.

Andy Wightman: My final point is whether there is any evaluation of the needs of the applicant in terms of receiving CARES support. Are they assessed as to their independent wealth?

Paul Wheelhouse: I will refer that point to Ms Kearns.

Sue Kearns: There is an additionality section in the applications. Applicants have to say whether they will be able to progress the scheme if they do not get the support. Obviously, they are meant to answer that honestly. I am not sure how much probing goes into it, but the applicant is meant to answer that section to provide information for the assessment of additionality.

Jamie Halcro Johnston (Highlands and Islands) (Con): Minister, you and Susan Kearns have mentioned innovation. The projects in Shetland have been mentioned, and I know that you visited Surf 'n' Turf in Orkney. The storage aspect is increasingly important. Is that importance reflected in the budget?

Paul Wheelhouse: Absolutely. As Sue Kearns said, we are keen to promote more integrated projects. I am familiar with the Surf 'n' Turf and BIG HIT—building innovative green hydrogen systems in isolated territories—projects. We have supported projects in the Orkney islands involving storage, because of the grid constraint issue, which we hope will be overcome. There has also been an opportunity to explore areas such as hydrogen as a storage option for the development of hydrogen ferries.

It might be a subtle point, but we have rebranded the renewable energy investment fund as the energy investment fund. We have moved away from a focus purely on renewables in order to allow for storage to be included and for more integrated projects to be supported. The EIF is now available for projects that integrate generation and storage. As Sue Kearns said, under the low-carbon infrastructure transition programme and through other routes, we have been trying to support more integrated projects. In the Orkney islands and elsewhere, heat batteries have been used. Sunamp, a Scotland-based manufacturer, is taking forward a project with Castle Rock Edinvar Housing Association in Lothian and Midlothian that combines solar power with heat battery storage. It also has a control group that is just using solar power alone, so that the impact of heat storage arrays can be evaluated.

You are right to identify that storage is an important factor. As I said, although it might not have the high profile that some other projects have, the investment that Nova Innovation and Tesla are making in their project in the Shetland Islands is interesting from the point of view of finding a way of allowing electricity that is produced by relatively high-cost generation technology—which is high-cost technology at the moment only because of the manufacturing volumes—to be sold through arbitrage at the point when it can be sold in the market at the best price, which allows the generator to avoid a reliance on the wholesale price.

Storage can play a number of roles, not only in that sense but in terms of balancing the grid. We are keen for it to be developed. As the energy strategy sets out, we are keen to develop local energy supply-and-demand relationships, and I know that the regulator is considering that issue with regard to how it can use its influence to try to support the development of a clearer local supply-and-demand relationship across Scotland and the rest of the UK.

Jamie Halcro Johnston: At the moment, the scheme is part of integrated schemes and projects that are coming forward. In this year's budget or in future budgets, will there be a greater focus on dedicated storage as an independent area of innovation rather than as something that is tied to integrated systems?

Paul Wheelhouse: If I understand your point correctly, the answer is yes. I should stress that Scottish Enterprise and Highlands and Islands Enterprise are active in supporting research and development around storage, and that the power networks demonstration centre in Cumbernauld, a research institute, is trialling battery technology with support from enterprise companies and the Scottish Government.

We consider storage in its own right, but we see its particular value coming when it is integrated as part of a wider solution. Of course, we are looking at low-carbon transport options, with the batteries in the vehicles helping to balance the grid at peak periods when plug-in vehicles are connected to the grid. There are a number of ways in which storage can play an important role as we develop a more whole-system approach to our energy system.

The Convener: That concludes this part of the meeting. I thank the minister and his officials for attending.

10:28

Meeting suspended.

10:31

On resuming—

Scottish Enterprise and Kaiam

The Convener: Item 3 is evidence on Scottish Enterprise and Kaiam Europe Ltd. We are joined by Neil Francis, director of trade and investment operations Scotland, Jane Pollock, team leader global accounts, Elaine Morrison, head of partnerships and Michael Cannon, head of innovation and enterprise services, all from Scottish Enterprise. I understand that Neil Francis wishes to make an opening statement.

As some of you are appearing before the committee for the first time, I will explain that there is no need to press any buttons to operate the mics. Please simply speak when you are invited to do so. If you want to make a specific point in response to a question, please indicate by raising your hand and I will bring you in.

Neil Francis (Scottish Enterprise): Thank you for inviting us here today. We appreciate the opportunity to have this discussion. As you will appreciate, the meeting was arranged at fairly short notice and, if we are unable to answer any of your questions to the level that you would like, we will be happy to follow up in writing and would welcome the opportunity to return to the committee another time.

Before we delve into the detail on Kaiam, it is important that I spend a couple of minutes explaining the context. Working with companies is a critical part of what Scottish Enterprise does because, at the end of the day, it is the companies that will create more and better jobs, which is what we all wish for our economy. As part of that, we can provide grant assistance to companies, through programmes such as regional selective assistance, to support them to deliver specific outcomes. In respect of RSA, the outcomes are to do with job creation and investment in capital assets. Both of those are important in driving forward the productivity of our economy.

When we work with companies in providing such assistance, there is always an element of risk. At the end of the day, Scottish Enterprise is in the risk business. However, we always seek to balance risk against the potential outcomes by undertaking appropriate appraisal and due diligence and by attaching conditions to the assistance that we offer companies. It is inevitable that sometimes the outcomes that are generated are not what we all wish to see—as we will discuss later.

It is important to put that into perspective. Over the past five years, through our RSA programme, we have supported 400 companies to make an investment of about £1 billion in the Scottish economy, creating more than 40,000 jobs. That is a significant area of performance and investment.

On Kaiam, our priority, along with that of our partners, continues to be to achieve the best possible outcomes for the affected employees and to secure a positive future and outcome for the site. As the committee will be aware, the project has a number of sensitivities and commercial aspects that are still current. I hope that members will appreciate that we will respect those in the way in which we answer their questions today.

The investment support for Kaiam came at an important juncture for the West Lothian economy. Members will recall the closure of the Hall's of Broxburn facility and the task force that was established to bring additional economic activity to West Lothian in its aftermath. The investment in Kaiam came about, in part, because of the work that was done by the task force.

As my final point, I remind the committee that, last year, Rhona Allison and I came here and had a fairly detailed and productive discussion about how SE works with companies in turnaround or distress situations. If members recall that, I hope that it will provide useful background to our discussion this morning.

The Convener: Thank you. We turn to questions from committee members, starting with John Mason.

John Mason: By way of introduction, can you give us a little bit of background on when Scottish Enterprise started its relationship with Kaiam? I understand that, before Kaiam, there were at least two previous incarnations under different names. I do not know all the legal issues of that. You have mentioned things that happened after the demise of Hall's, but was that when the relationship began, or does it go back further than that?

Neil Francis: I will ask my colleague Jane Pollock to address that question.

Jane Pollock (Scottish Enterprise): We started working with the pre-company, which was called Gemfire, and there was continuity of support when Kaiam came in and took over its business in 2013. Therefore, overall, we had been working with Kaiam for around five years.

John Mason: Just to clarify, are you saying that you had worked with Gemfire before that?

Jane Pollock: Yes.

John Mason: When was the very first time that you started with either Gemfire or the other company?

Jane Pollock: That began around 2008.

Neil Francis: The history is long and complex.

John Mason: I do not want all the details.

Neil Francis: It started with a company called Kymata, which was a Scottish technology start-up. That went through a number of incarnations before it even got to Gemfire.

John Mason: Could we go back to the beginning of those incarnations? When was the first time?

Neil Francis: I do not have that detail with me today, but we could follow up with that in writing.

John Mason: But it was before 2008, in other words.

Neil Francis: Yes.

John Mason: That is helpful.

As I understand it, although the company was based in America, most of its employees were in Scotland. Where were its real decisions made? Were they made in California, in Scotland or somewhere else?

Jane Pollock: The senior management team was based predominantly in Scotland. The chief executive officer was an Iranian-American who based himself over here. The company's decisions were made by its senior team, which was led by him.

John Mason: So Scottish Enterprise was able to meet the most senior decision makers if necessary.

Jane Pollock: Absolutely, yes.

John Mason: Thanks very much.

Jackie Baillie (Dumbarton) (Lab): Can you describe to me the nature of the support—I am thinking in terms of people rather than cash—that Kaiam received from Scottish Enterprise over the past five years?

Jane Pollock: We worked with it on a fully account managed basis, throughout the team, with a highly experienced account manager. In the initial stages, we always have a strategic discussion in the initial stages to look at all the themes, such as innovation, workforce and internationalisation.

On the people element of the business, the predominant work that we did throughout that period was through the Scottish manufacturing advisory service. That was about lean principles and helping the company to implement efficiencies. We implemented about four projects through SMAS during the period, and in the remaining time it was always part of the agenda to discuss what more we could do on the people development aspects, given the skills and talents of the workforce.

Jackie Baillie: There was one account manager in place for the company. Typically, how would that account manager operate with the company?

Jane Pollock: There are regular meetings, but never meetings for meetings' sake. We look to meet at least once a quarter and to have an annual review, but there are also meetings in between. Businesses operate in cycles, so they can just be managing day to day. We are always trying to identify any further opportunities for training the workforce, new projects and new areas of investment, so we have on-going dialogue throughout the full period. That involves the account manager leading and bringing in colleagues as needed.

Jackie Baillie: Is it fair to say that the account manager has expertise in the area, is embedded with the organisation and knows everything that is going on?

Jane Pollock: Yes.

Jackie Baillie: Who was the account manager in this case?

Jane Pollock: I would rather not name them in a public forum.

Jackie Baillie: Can you supply that information to the committee?

Jane Pollock: Absolutely. We can supply that separately.

Jackie Baillie: That is fine.

We will turn to cash now. Leaving out regional selective assistance for a moment, how much public funding did Kaiam receive from Scottish Enterprise? I am thinking of other grants, reliefs and indeed how much it costs to put an account manager in place.

Jane Pollock: It is part of Scottish Enterprise policy and remit to place an account manager to work with such a business.

Jackie Baillie: However, it has a cost—

Jane Pollock: It has a cost—

Jackie Baillie: —and I am curious to know what that was.

Jane Pollock: Again, we can provide to you separately the cost of implementing or bringing in an account manager.

Jackie Baillie: That would be helpful.

Jane Pollock: In direct financial support for the company, I think that there was about £9,500 through SMAS for a range of SMAS-related efficiency projects, which are always tied into the company achieving results and productivity improvements.

Jackie Baillie: If I am right, the previous regional selective assistance was £850,000, and then there was something like £100,000 more recently.

Michael Cannon (Scottish Enterprise): Good morning. No—the £100,000 was simply an instalment of a grant claim. The total RSA that was paid was £850,000.

Jackie Baillie: Thank you.

The Convener: Were there a number of account managers over the years, from 2008 to date?

Jane Pollock: Yes. Again, we can investigate and reply separately, but historically—

The Convener: You will supply us with a list of who those people were. Is that right?

Jane Pollock: Yes, we can do that.

The Convener: Why do you not wish to name the person in a public hearing?

Jane Pollock: It is really just that, in relation to the work that has been done, we are here to represent Scottish Enterprise as a group. We can provide those names separately.

The Convener: I am not sure that I understand that answer. The four of you are here and you are named. You are representing a public body. I presume that the account manager works for Scottish Enterprise. Is that right?

Neil Francis: Yes, indeed. It has not been something that we have really considered. Our policy has not been to release the names of individuals who do individual things, but we can reflect on that and revert to you in writing.

The Convener: So that is a general policy that you have in relation to the different companies that you deal with.

Neil Francis: As far as I am aware, yes.

The Convener: Perhaps you can clarify that as well when you provide the list of names.

Neil Francis: Yes, of course.

Dean Lockhart: What is your understanding of what went wrong with Kaiam in recent years?

10:45

Jane Pollock: Essentially, as a technology company, it was continuously being invested in. There have been downward price pressures in the market and a lot of larger players are coming in. Kaiam began to experience cash-flow issues more recently, but throughout its existence it had received viable investment from the private sector. The greatest recent pressure on it was market conditions that were changing very rapidly.

Dean Lockhart: When did you see the first signs of distress with the business and its cash flows?

Jane Pollock: In terms of the cash flow, the first sign of distress came towards the end of the year, in November, when we initially provided briefings. Until then, Kaiam met every target for the support that we gave it, and it was continuing to invest. At that time, we were also talking to Kaiam about other potential investment opportunities, because it was planning ahead. The technology for end-to-end data processing that Kaiam is involved in on moves really quickly, so the company was constantly looking to invest and stay ahead of the market with its products. The first sign of the company's distress was shared with us on 16 November.

Dean Lockhart: More generally, does Scottish Enterprise have a system of early warning signals or flags that might show early signs that a company is in distress, such as not filing the accounts on time?

Jane Pollock: It is quite common for companies not to file accounts absolutely on time. There can be various reasons for that, and it is not unusual. The early warning signs that we might see obviously involve reviewing finances but they might also be behaviours, such as companies not engaging with us or there being a bit of radio silence, particularly if there is a live project and we are looking for additional information or updates and it goes very quiet. We are always open to looking for any alerts about the companies that we work with, through the instincts and experience of the teams and networks that engage with them.

Neil Francis: We would generally get early signals through our process of engagement. Clearly, that is dependent on the level of trust and confidence that the senior management of the company has in its relationship with us, so that is very important. That will give us much earlier signals than some of the information that is in the public domain, such as the late filing of accounts that was mentioned, although that is important. We have a commitment to review whether there is a more systemic approach to how we could identify companies that might become at risk in the future. That is an on-going piece of work.

Dean Lockhart: Okay. The most recently filed accounts show a pre-tax loss of £20 million in 2016. Presumably, those accounts also showed some pressure on cash flows. At what point did Kaiam enter your watch list or did you increase scrutiny of how the business was doing?

Michael Cannon: You are right that the company had a history of loss making, but that is not in itself a reason for us not to continue to support a company. As Jane Pollock said, we were working closely with the company and meeting it regularly. At each grant claim, we looked at the accounts of both the entity here—Kaiam in Livingston—and the parent company. Not unusually for a start-up company, it was heavily dependent on the backing of its shareholders. It had a significant track record. It had raised some £45 million since the start of the acquisition of the company and it had sold various facilities—in particular, one in Newton Aycliffe in England—to help with the balance sheet.

We were reasonably clear. It was not by any means the best set of financials that we had ever seen, but the management team had a track record of raising cash and the margins in the business were gradually improving. Sales had risen significantly. When the Kaiam Livingston acquisition occurred, they were standing at around £4 million or £5 million. By 2018, that had risen markedly to £30 million, and the corporation sales were even more significant. They were doing a lot of the right things and increasing sales and volume. The yields from the machinery and the output of the factory were increasing through the SMAS work that we were doing, and gross and net profit margins were moving in the right direction. Towards the end of 2018, the company was forecasting a small profit, although perhaps a loss for the year overall.

Given that background, the levels of jobs and growth and the forecasts, everything seemed to be moving in the right direction, albeit slowly.

Dean Lockhart: Did you challenge the company or talk to the auditors about the late filing of accounts?

Michael Cannon: Not to the best of my knowledge.

Dean Lockhart: Are the systems that are in place robust enough, generally and particularly for this company, to capture early warning signals where companies are in distress, given what has happened?

Michael Cannon: My view is that they probably are, on balance. As Neil Francis said, out of the 408 offers that we have made in the past five years, there have been some 30 write-offs, which represents about £4.5 million from grants of £128 million. Given that we are in the risk-taking business, there is an argument to be made that that is perhaps not sufficiently high. We are a funder of last resort; people come to us when they cannot raise finance from elsewhere, so we deal with companies that are in the riskier end of the market.

Elaine Morrison (Scottish Enterprise): By way of background, I add that all our customer-facing staff who are account managers who work with companies have gone through training that is provided by Ernst & Young on the ways to identify signs of distress in businesses. The reliance on individuals who have that relationship is particularly high. There is also a systematic approach whereby, on a periodic timescale, we go out and ask companies to confirm whether they have any concerns about future trading and so on, so a two-pronged approach is in place.

Dean Lockhart: Is the late filing of accounts not a red flag that will automatically raise concerns?

Elaine Morrison: It will be a red flag, but it is not always a concern. It happens more often than some people would imagine. There are sometimes good reasons for it, but it is always a flag for a conversation to happen.

Dean Lockhart: Did that conversation happen?

Elaine Morrison: I do not know.

Jane Pollock: It did. The most recent intensive work was done around the RSA claim in March. We always have the conversation, but the company had a strong track record of continuing to get private sector investment throughout its existence.

Neil Francis: At the point of a claim against RSA, a formal review is always done of the business and its prospects, which will use more recent financial information and statutory accounts.

Dean Lockhart: If a company is account managed, is it automatically the case that you will review certain hygiene issues, such as the filing of accounts?

Jane Pollock: Yes. As Elaine Morrison said, that will be a flag, but not necessarily a concern. We will have the conversation, and we had the conversation in this case, for last year in particular. The company was looking at the future and there was continuing investment; it was still a viable business.

Dean Lockhart: What explanation did the company give for the late filing of accounts?

Jane Pollock: There were a number of things that it wanted to attend to and address before it finalised the accounts. There is only so far that we can push.

Dean Lockhart: Was that explanation sufficient for your purpose?

Jane Pollock: It was sufficient at that time. It was on-going and we were having formal reviews throughout the period of the RSA claim, which was additional assurance.

Dean Lockhart: Convener, I think that I am drifting into the substance of other members' questions.

The Convener: Yes—I call Angela Constance.

Angela Constance (Almond Valley) (SNP): As the panel will appreciate, I am the constituency MSP for Almond Valley so, with the convener's indulgence, I will ask a number of questions. I have a particular interest in public investment in a company in my area that laid off more than 300 staff before Christmas without warning and without pay.

I make it clear that I want Scottish Enterprise to continue to invest in West Lothian. However, given the history of Kaiam and other companies in West Lothian that have benefited from public money but have later bailed on the community, it is important for my constituents and others to receive maximum assurance about how public investment is used to anchor jobs in a community.

Given that Scottish Enterprise serves taxpayers as well as companies and job creators, I will ask a number of questions about due diligence. Will you outline the due diligence process that you followed in deciding to award Kaiam £850,000 in RSA? It had a history of filing its accounts late—it did that for a number of years—and it had made no profit since 2012. What strengths of its application persuaded you to award it £850,000?

Michael Cannon: Primarily, the approach involved the counterfactual that, if we had not funded the company and the acquisition of Gemfire back in 2013, the plant would have closed. Gemfire was not in a position to sustain the investment and the losses that it was making so, on the back of the Hall's of Broxburn closure, the opportunity for a company to acquire Gemfire and not only safeguard 65 jobs but add 103 jobs was of interest to us—and, I am sure, to constituents in West Lothian. Of those jobs, 80 were entry level, which was a further enhancement; they were available to a wide range of people with a wide range of skills, and not simply technical skills.

As per all RSA applications, the due diligence that we undertake looks principally at five things. We undertake financial due diligence that looks at the accounts of the applicant—and the parent, where one exists—to assess viability and the need for funding. We look at whether the management team is experienced and skilled. In Kaiam's case, the management team was very skilled; the three principals—the chief technology officer, the chief executive and the chief finance officer—all had experience of dealing with small technology companies and raising money, so the team was credible.

We look at the business plan and at whether the business has a credible and robust go-to-market plan. If it is taking a new product to a new market, it will be in the highest-risk category. In this case, the company was taking an existing product to an existing market, and the people who were involved knew the market well and had strong routes into it, which gave us comfort.

We look at the sector and the extent to which the market that a company hopes to sell into is growing. Kaiam's product was aimed at data centres, which were and are growing considerably—Amazon, Google and Facebook all have large data centres—so the market was growing.

11:00

Putting all those things together, the final piece of due diligence that we undertake is an economic impact assessment. Is the return that the economy is going to get larger than the grant that we are going to put in? In this case, the company was looking for some £850,000, and our economic impact assessment was that we would get a strong economic return.

We have done a simple and initial economic impact assessment of the position as it is. Close to 600 people years' worth of employment has been created in the past five years from Kaiam. We estimate the value that Kaiam and the investment have created for Scotland and West Lothian to be about £42 million per year. Simply based on the tax and national insurance returns, our estimate is that Scotland and the public taxpayer have had a return of about £4 for every £1 that we have put in.

It is very regrettable for the people who have been made redundant. I have been made redundant, so I empathise with them. However, there has been a return.

Angela Constance: Thank you for that detailed answer. As someone who is local to West Lothian, I fully understand the context of Hall's and the potentially catastrophic impact that the local economy faced then. I understand a bit about the history of Gemfire, although it may add salt to an open wound for people to think that £29 million of public money was put into a rescue package post-Hall's, only for that to be invested in companies that have behaved dishonourably. How much did Scottish Enterprise invest in Gemfire?

Michael Cannon: I do not have that figure.

Neil Francis: We will come back to the committee in writing on that.

Angela Constance: I would be interested to see the history of investment in the business as well as in the individual companies.

I turn to the history of the business. I am aware that, as you outlined, it began with Kymata. It was sold on to various French interests, and when Alcatel, the French company, sold it to Avanex, the process was described as selling the "loss-making optoelectronics unit". I am well aware of the history of Gemfire and I had discussions with Richard Tompane, the then chief executive, when it laid off 170 staff. It then bounced back a bit in 2009. Kaiam has not made a profit since 2012, and we have heard about the habit of filing accounts late.

Where did the history of the business figure in Scottish Enterprise's due diligence?

Michael Cannon: New owners will look forwards rather than backwards. We always look at what the option will be if we do not fund a business. If we had not funded and supported the acquisition, the factory would have closed with a further 65 jobs being lost. That is the counterfactual or the alternative.

Angela Constance: I understand the merits of a new broom coming in and, as someone who was in contact with Scottish Enterprise at the time of Gemfire's difficulties, I understand that protecting jobs is a crucial part of what Scottish Enterprise does. What I am particularly interested in is how the nature of the business informed Scottish Enterprise's due diligence given that the site has employed 65 staff, but at one point it employed 450 staff. There was much volatility. Gemfire paid off 170 staff, and then it bounced back a bit soon after when the market picked up.

How well do your advisers understand the business? How niche is it? I understand that it provides a product to big data customers such as Google, Facebook and Amazon. How well did you—and do you—understand the nature of the business? That has to figure in all of this. It is not just about the new broom, the new faces, the new company and the facts as they stand. There has to be an understanding of the history and the risks that are associated with this type of business.

Michael Cannon: That is something that we take into account. My interpretation of what you are asking is whether there is a credible business model and whether the industry could succeed and flourish in Scotland. Our view back then was that it could.

If we look back a little further to the days when NEC was operating in Livingston—making chips is a similar type of operation—what was needed was volume. Gemfire and Kaiam were both suffering from underinvestment in equipment that could achieve very high volumes and get to the market. When Kaiam came along, we looked at the background of its chief executive and its plans to bring back production from China, and latterly also from America. We took into account that there would be a change to the business model and that volume was needed on the back of the investment. Kaiam had the capability, and bringing business from China to Scotland would help to win business and drive up volumes. Likewise, its contacts with customers would ensure that those volumes could be achieved on the sales side.

From both a practical and a process perspective, the volumes that underpinned the business model and the business were there, but we also thought that the company could achieve the sales.

Neil Francis: It is a fast-moving, technology-driven marketplace, and there will always be risk inherent in participating in that marketplace. We undertake our due diligence to an appropriate level. We cannot always be fully expert in every field. As Michael Cannon said, we take into account the other investors in the business. If you look at the level of funding that we provided against the level of funding that was provided by private investors, you will see that our investment was fairly small. Others felt that there was a viable business here, and over the piece they invested about £45 million. We take an element of comfort from the fact that others are also willing to invest.

Angela Constance: I understand that the global market in this area is very competitive. I also understand the points that Michael Cannon made about volume. However, what the former chief executive is now saying—although I have questions about the credibility of his testimony, given his behaviour towards the workforce—is that Google, Amazon and Facebook required high volume, but at very short notice, which made the business unpredictable. Did Scottish Enterprise, on behalf of the taxpayer, understand the unpredictable nature of the business? Do you think that it is the nature of that business to be unpredictable and did you get into that level of detail in your understanding?

Neil Francis: We understand that it is an unpredictable, fast-changing marketplace. Over the piece, those changes can happen very quickly. As I said, at the point that we took the decision to offer the RSA grant, we were satisfied that, on the balance of risk, it was an appropriate investment to make and that the prospects for the company to achieve a viable business were satisfactory.

Angela Constance: Was this business just at the mercy of Google, Amazon, Facebook and so on?

Jane Pollock: It depended on its customers. Its products were attractive to those operations but the demand for volume was escalating simply because of the needs of advancing technology and the speed of end-to-end data processing and increasing technological developments around the cloud. Those companies are very demanding on scale and volume. Price pressures were also caused by other entities moving into that space and, because they were larger companies, prices were being driven down.

Companies are at the mercy of the demands of technology and nobody could predict the speed of that. We have moved from analogue through 2G, 3G, 4G to 5G in a very short time, and companies such as Kaiam are constantly trying to stay ahead of that.

These large business also all compete with each other.

Angela Constance: I want to move on to the conditions of the RSA award. Did the company draw down all of the £850,000?

Neil Francis: It did.

Angela Constance: When was the final £100,000 instalment?

Michael Cannon: March 2018.

Angela Constance: That is pretty recent.

Can you give us an overview of the conditions of RSA funding that Kaiam was meant to comply with, whether it met those conditions and how legally binding they are?

Michael Cannon: The conditions are fairly standard for all RSA grants in that companies must maintain the jobs and investment for a number of years after the date of the final payment. In this case, it was three years after the date of the final payment, so Kaiam is clearly in breach of the conditions.

Another condition was that we wanted a parental company guarantee, and that is in place. We have written to the administrator to seek clawback, but we cannot put a figure on that yet, as the administrator has not finished its job, so we do not know whether we are likely to be paid fully from that. In the event that we are not, we will also call in the parental company guarantee.

Angela Constance: I appreciate that the company is now in breach of the conditions. What I said to Scottish Government ministers last week was that I do not understand why it was not in breach of the conditions much earlier. It is very interesting to hear you say that the conditions are pretty generic to all companies. I contend that it cannot possibly be right for an award of up to £850,000 to be made at the end of 2013 when, almost a year later, 20 full-time staff and some temporary staff were being paid off—60 staff in total. Surely that is an early warning sign, if not a breach of conditions.

Michael Cannon: The contract that we had with Kaiam was for the safeguarding of 65 jobs and the creation of 103. It quickly exceeded that and, at its peak, there were well over 400 jobs. Combining the 65 and 103 takes us to 168, but for a number of years, the company well exceeded that and, at closure, it was still exceeding it at 345 to 350 jobs.

In that sense, the company was honouring the contract. It had exceeded the job targets and investment and met the conditions during the project. Once the project finished with the final payment, it moved into a post-project period during which investment in those jobs must be maintained. From our perspective, during the life of the project, the company had exceeded what we had contracted with it, so it was not in breach of the contract.

11:15

Angela Constance: So it is true that, in any RSA award, Scottish Enterprise will tolerate a level of job losses.

Michael Cannon: In general, that is the case.

Angela Constance: I will certainly come back to that.

Neil Francis: In an award, we set out a number of milestones that must be met from the start to the end of the project and, as Michael Cannon said, in the conditions period. A payment is made against each milestone. For each payment milestone, a company usually has to achieve a capital investment figure, which is usually verified by an independent auditor's certificate, and a jobs figure. Throughout the period of a grant, those conditions must be maintained.

Angela Constance: I understand the process that you outlined and I appreciate the information that you gave the committee, but it appears to be true that, in any RSA award, a level of job losses can be tolerated.

Did Kaiam sign up to the Scottish business pledge?

Elaine Morrison: It did not opt to sign up to the pledge, although it met six of the nine characteristics of the pledge in how it operated as a business.

Angela Constance: What consideration have you given to businesses signing up to the business pledge as part of RSA conditions?

Elaine Morrison: This is not specific to RSA conditions but, for at least the past two and a half years, we have had quite a strong focus on engaging with all account managed companies to ensure that they understand why the business pledge and the characteristics that it conveys are particularly important if they are to be forward-thinking and fair employers. That brings benefits to their businesses, their operations and their market engagement, which is the key bit for them. We have at least one conversation, if not more, with every account managed company about the business pledge. We have monitored engagement with that portfolio in the past two years and we have seen improvements in most areas; some areas have lower uptake than others, so we have been focusing on increasing their uptake.

Signing up is down to companies. We encourage that, but we do not dictate that companies should do it; we say that it is a welcome thing for them to do, that it presents a positive endorsement of their commitment to Scotland and that it can help to attract staff to work with them. For various reasons, some companies have chosen not to sign up. In 2018, we supported the Scottish Government's review of the business pledge and its thinking on how that might play forward.

Angela Constance: It sounds as if more needs to be done to persuade companies of the business case for signing up to the pledge and to show them that fair work makes good business sense.

I will move on to two slightly different issues. The committee received evidence from a supplier to Kaiam. Over Christmas, much of the focus was on the Kaiam workforce, but we should not forget those who are in the supply chain. Purchase orders for November and December were issued to that small supplier and then, like everybody else, the company found out that Kaiam had advised Companies House that it would stop trading at the end of December. Because the purchase orders were not met, the company has had to let three members of staff go.

Does Scottish Enterprise have any role in supporting the supply chain? Given the consequences of a lack of information and a lack of knowledge, who is alerted to problems and when does that happen?

Elaine Morrison: When any company faces such a situation, a key aspect is understanding the wider impact across the Scottish supply chain base. Scottish Enterprise works with the administrator, the local authority and business gateway to engage with companies that are impacted by any significant hit. Hits come in different sizes—if there is a large employer with a neighbouring provision of cafe facilities, for instance, not having a footfall of 300 or so individuals is hugely significant. We may not always see that impact on a supply chain breakdown from the administrator; what we would typically see are the purchase order commitments.

We received information last week from KPMG, which is trying to understand the situation that the company was in. We are working with West Lothian Council to make contact with parties that have been affected.

Angela Constance: I will finish where I started—I want Scottish Enterprise to continue to invest wisely in West Lothian. We heard from the Minister for Business, Fair Work and Skills last week that there are in excess of 20 interested potential buyers. I am interested in knowing more about your role in identifying suitable buyers and what support you would be able to offer any potential buyers.

Jane Pollock: It is very much our role to do that. We have provided a summary to KPMG of the types of things that we can do. We have also actively reached out to our networks through Scottish Development International after looking at the nature of the business to identify contacts and names.

KPMG wants to manage and control that process, which is absolutely the right approach. We are providing information and feeding into that process using our own networks and identifying names of businesses at senior level globally to try to input to that list. We are also actively following up and we are open to being involved in any meetings, conversations and calls with any interested parties to identify what their interest is. The priority is to keep the business a going concern in some way.

We are applying the team approach that we have applied throughout the situation with Kaiam to any potential investors, whether they are current investors in Scotland or new to Scotland, to encourage them to invest and work with us to keep the business a going concern. We are working with KPMG and engaging with it regularly. I think that we have another call with KPMG this week to talk about the situation.

Elaine Morrison: To quantify, over half of the opportunities that KPMG is now working on have been put forward to it as a result of us reaching out to our networks for potentially interested parties. KPMG also has its own networks, which have supplemented that number.

When we spoke at the end of last week, KPMG had more than 20 expressions of interest. We put forward a further four to KPMG today. KPMG is working through which of those are interests in keeping the business a going concern and which relate to specific functions of the business. Ultimately—and only when no other options are left—it will look at which are interests in the assets that may be acquired from the business. Currently, KPMG's focus is entirely on the opportunities for keeping the business a going concern. KPMG wants to conclude that process by the end of January. It is not a finite timescale, but that is the indicative timescale that it is working to.

Angela Constance: How many of those who have expressed an interest are interested in purchasing the company as a going concern?

Elaine Morrison: We have not been given the precise number, but we have been told that a reasonable number are interested in purchasing the company as a going concern. Expressions of interest are coming from the UK, the US and China.

Colin Beattie: I am interested in the fact that Kaiam breached the terms of the grant. I presume that you are trying to recover the full amount of the grant?

Elaine Morrison: Yes.

Colin Beattie: Are there any additional sums that you would try to get or are there no penalties? Is it just the grant?

Michael Cannon: It is just the grant.

Colin Beattie: Where is Scottish Enterprise ranked in the list of creditors of the company?

Neil Francis: We are unsecured.

Colin Beattie: Would it not be normal to take some security, if it is available, or to word the agreement in such a way that you have a certain ranking, as would any other lender?

Neil Francis: I am not a legal expert, so we might come back with clarification, but I can say that a grant is not a loan, so it should not be treated in the same way as lending.

Colin Beattie: The company carries a legal and financial liability until the three years—

Neil Francis: There is a conditional liability; I am not sure how that is presented in companies' accounts—I do not think that they show an award as a conditional liability but, as I said, I am not an expert on the question. We must balance our position, as we do not want to get in the way of a company using normal lending to meet its funding requirements.

Colin Beattie: You said that you had a parent company guarantee, which I presume was from the company in the US.

Neil Francis: Yes.

Colin Beattie: In accepting that guarantee, what due diligence did you carry out on the parent company?

Michael Cannon: We can come back with fuller details of the due diligence that we undertake, but we ask for confirmation from a lawyer that the parent company has the ability to give the guarantee, and we look for the parent company's board to sign an affidavit that it can fulfil the guarantee.

Colin Beattie: Having such a guarantee is a comfort, but it is only good as long as the parent company is financially healthy. What process do you have for following up on the parent company's financial position?

Michael Cannon: At the claim stage, we review the applicant's accounts—

Colin Beattie: We are not talking about the claim stage. You wanted the comfort of a parent company guarantee because you felt that the financial health of the company here was not of the required standard. When you obtained the guarantee, you undertook due diligence on the parent company's ability to meet the obligation. However, as we can see from the company here, situations change. When you receive a guarantee—I am not talking just about Kaiam—how do you ensure that it is worth the paper that it was written on?

Michael Cannon: The simple answer is that we cannot ensure that in every case.

Colin Beattie: A simple form of due diligence would be to look at the parent company's accounts every year. Is there a process for that?

Michael Cannon: That is what I was saying. At the claim stage—

Colin Beattie: That happens at the claim stage, but what happens on an on-going basis? The company guarantee could apply for a number of years.

Michael Cannon: If Kaiam had not entered administration, we would through our account management have looked each year at the accounts of the company and its parent.

Colin Beattie: So you have a process for doing that.

Michael Cannon: That is part of our regular review.

Colin Beattie: When did the parent company sign the guarantee?

Michael Cannon: I would have to come back to you on that.

Colin Beattie: I am interested to know whether that happened some years ago—

Michael Cannon: It was some years ago.

Colin Beattie: —and what due diligence has been carried out in the interim to find out the prospects of getting the money back.

Correct me if I am wrong, but I think that you said that there have been about 30 write-offs in the past five years, which have totalled £30 million or £40 million.

Michael Cannon: No—the figure is £4.5 million.

Colin Beattie: How many of those companies failed to meet the conditions of their funding? Have you succeeded or failed in clawing back any of their grants?

Michael Cannon: We would have to write with those details—I do not have the figures with me. In all instances, we attempted to reclaim the money.

Colin Beattie: How much communication has Scottish Enterprise had with Kaiam about the grant?

Neil Francis: Over what period?

Colin Beattie: Since the firm went into administration. Has all the communication since then been with the people who are handling that?

Jane Pollock: Yes—communication has been with the administrator since the company went into administration.

Colin Beattie: So you have had no direct communication with the company.

Jane Pollock: We are now liaising with the administrator, KPMG.

Colin Beattie: Have you advised the parent company that its guarantee may require to be called on?

Michael Cannon: Yes.

Neil Francis: Yes.

Colin Beattie: You have gone through that legal process. Some legal costs will be involved in that, especially if you are dealing with a US company.

Neil Francis: We have written to advise that we will seek to call on the parental guarantee. Writing does not have too much of a cost associated with it, but if we were to pursue the matter, then Mr Beattie is right.

11:30

The Convener: Have you had a response from the parent company on whether it will honour that guarantee?

Michael Cannon: We have had no response yet.

The Convener: When did you write to the parent company?

Michael Cannon: We wrote last week.

The Convener: There are conditions attached to paying out the grant, but you made the comment that you cannot ensure that the guarantee is worth more than the paper that it is written on—that is my understanding of what you said in response to one of the questions.

Michael Cannon: I do not think that I quite said that; I said that a parent company might not continue to exist in every case. In some cases, both the subsidiary and the parent company enters administration. We seek to get a parent company guarantee where we can, but we do not think that it is a magic bullet that will save us. When we can get it, it is good to have.

The Convener: However, as you said, in such circumstances, it might not be worth any more than a guarantee from the company itself. Do you not seek, for example, bank guarantees from such companies? Those guarantees would be worth the sum that they are granted to.

Michael Cannon: To the best of my knowledge, we have not explored that avenue.

The Convener: What avenues have you explored?

Michael Cannon: Principally, we have used parent company guarantees.

The Convener: There are follow-up questions from Gordon MacDonald, Jackie Baillie and Andy Wightman.

Gordon MacDonald: I have a quick question.

At the time that Kaiam took over Gemfire Corporation, Gemfire was owned by GC Holdings. The president and chief executive of GC Holdings then became the chairman of Kaiam. Is that an unusual situation? Did it ring alarm bells that a person who was an investor in one company was moving on to invest in the second company?

Elaine Morrison: At the point of acquisition of any company, it is fairly common to retain someone who knows enough about its history. I could not quantify how often that happens, but I have seen it in practice in other companies that we have worked with. That arrangement often exists only for a defined period and then, as transition takes place, the company will change it. However, I cannot give you a statistic for that.

Gordon MacDonald: So it is not unusual and it would not ring any alarm bells.

Elaine Morrison: It happens in other cases. As Michael Cannon alluded to, we would look at the overall strength of the new management team of the company that is looking for public sector support. We would ask whether, collectively, it inspires sufficient confidence in the way it wants to take its business forward. It is rarely about one individual—it tends to be about a collective.

Jackie Baillie: In response to a question from Colin Beattie, Michael Cannon said that Scottish Enterprise always attempted to reclaim money. Is there a standard process for doing that? I appreciate that you might not be able to think back 10 years, but have you successfully reclaimed any money in the past year? If so, how much have you reclaimed?

Michael Cannon: Again, I am sorry that I do not have those figures at the top of my head.

Jackie Baillie: You were coming here to a committee meeting at which we would explore clawback—that was self-evident from what we said on public record. However, you do not have the figures and you cannot remember what has happened in the past year.

Michael Cannon: I am afraid that the reclamation side of the business is not my part of the business.

Jackie Baillie: Whose part is it?

Michael Cannon: It is a colleague's—

Neil Francis: I apologise that we have not met the committee's expectations; following today's meeting, we will write to the committee on that matter.

The cases fall into a number of different categories. There are categories such as the one that we are talking about today, where the company fails or goes into administration. Reclaiming money or securing repayment of a grant can be challenging in those situations, because the company is no longer trading and has limited resources for dispersal. In other cases, there will be companies that have changed their mind or changed strategic direction and are no longer completing a project. When we look at the data, I hope that it will confirm that our track record of reclaiming in those situations is quite good. We will come back to you with all that detail.

Jackie Baillie: Leaving aside the detail, can you say whether you reclaimed any money in 2018? I do not need pounds, shillings and pence; I just need to know whether you have reclaimed any money in the past year.

Neil Francis: I am afraid that I do not know the answer to that.

Jackie Baillie: Oh my goodness me.

Neil Francis: I apologise.

Andy Wightman: In a letter of 31 December, the Minister for Business, Fair Work and Skills, Jamie Hepburn, provided all MSPs with a timeline, which indicated that, on 16 November, Scottish Enterprise was notified during a phone call that the company was in financial difficulty. Exactly what financial difficulty was intimated at that stage?

Jane Pollock: It was that the company had experienced severe price pressures, it was having severe cash-flow problems and, as a result of multiple factors, it was seeking a buyer. Those were the major headlines of the calls. The situation had emerged quickly and the company was doing everything that it could to secure a sale of the business.

Andy Wightman: You mentioned cash flow. Was there any indication of how much cash flow the company had on 16 November?

Jane Pollock: No. The call was to notify us of the situation. After that, we started to engage and mobilise and get into greater detail about the overall losses that the company was experiencing. The fact was that it was going through a period of severe cash-flow issues and it was seeking to sell the business urgently. We worked through the scale of the issues during the next few days.

Andy Wightman: On 22 November, ministers were briefed on the difficulties for the first time. What general criteria trigger Scottish Enterprise briefing ministers on a situation such as this?

Jane Pollock: As soon as we know the scale of the problem and understand the detail, that is when we trigger it. Sometimes we need a few days to crystallise the situation, mobilise the team, and look at whether any support can be provided. We do it as soon as possible when we properly understand the scale of the issue.

Elaine Morrison: The criterion is where there is a significant opportunity or loss. Typically, that would be something in the region of more than 50 full-time equivalents. That is the baseline. It will vary if the company is in a locality that has a specific sector or where there will be a tougher regional impact. It flexes; it is not a defined line.

Andy Wightman: That is helpful, thank you.

In the timeline, there is a note that, on 6 December, Scottish Enterprise notified ministers that it had declined a request for funding of £6 million to £8 million on risk grounds. What was that request for funding designed to achieve?

Jane Pollock: It was bridging finance to maintain the business to secure a sale. The whole situation and what the company was looking to do changed substantially in a short period of time, so that figure changed again because the company had secured an element of the financing that it was seeking. It was constantly looking to achieve a positive outcome in this scenario, but, given the risks involved and the financial situation, we did not have an investable case for supporting it at that stage. There was no investable case.

Andy Wightman: So it was just too risky and there was simply not a case.

Jane Pollock: At that point, yes.

Andy Wightman: On 7 December, following a call between Scottish Enterprise officials, and the chief executive officer and chief financial officer of Kaiam, ministers were advised that the company had around seven days of cash flow. Ministers were briefed on that.

If the company had no more than a week's money, why in general terms was that cash-flow issue not picked up on earlier? Clearly, that issue lay behind the 16 November phone call and it continued over the three weeks between 16 November and 7 December. I would have expected such a cash-flow issue to be foreseen in management accounts sometime in the summer, or is this just not the kind of business that could predict its cash flow?

Jane Pollock: Because the company had a track record of securing investment, cash flow was not as much of an issue as it might have been in other circumstances. In relation to the timescales that you refer to, in seeking to secure investment, the company was continuing to reach out to investors to address the challenges that it was having in order to ensure a sale. There was no stimulus to cause concern at that time. We were also talking to the company about other genuine investment opportunities. There was really no concern that it would become a situation of the scale that it turned out to be.

Andy Wightman: Forgive me—I do not manage large companies, but I know that investment would not normally underpin cash flow. It would normally be day-to-day trading on which forecasts are made about sales in the market and costs and whether you have the cash available. There could be timing issues there in relation to payment and all the rest of it. I do not quite understand why investment is part of the explanation as to why the company ran out of money.

Jane Pollock: The company was facing on-going market challenges in the reducing level of sales and the price pressures that it was suffering. It was a complex and fluid situation, which the company was making every effort to address itself before it came to us and we had the more detailed conversation in November.

Andy Wightman: How many meetings has Scottish Enterprise had since 16 November with the chief executive and/or other senior staff members of Kaiam?

Jane Pollock: There were four or five conference calls and a meeting, all with either the chief exec or the chief financial officer. Obviously, they were travelling globally; they were doing everything that they could. The face-to-face meeting was on 19 December, I think, and included partners.

Andy Wightman: Can you characterise their attitude? Do you think that they found this outcome surprising or was there an indication that they had been anticipating for some time that it might arise?

Jane Pollock: There were definitely multiple factors involved. Our understanding is that they wanted to address those factors themselves. It was just the timing of it and the scale—it all happened very quickly. Their behaviour suggested that they were confident that they could secure what they needed in order to be able to sell the business. That was always the message.

Andy Wightman: Thank you.

11:45

The Convener: I will go back to the employees and the Scottish business pledge. Jane Pollock said that Kaiam did not sign up to the pledge. When grant assistance is given, do you set minimum conditions for how an employer should treat its employees—its workforce?

Michael Cannon: I am not sure that we have the ability to dictate how a company treats its workforce. We encourage companies to sign up to the Scottish business pledge, and we hope in the future to incorporate conditions such as paying the real living wage as an entry criterion for support.

The Convener: I was not suggesting that you could dictate to any company how it treats its workforce; I was asking whether you require a minimum standard that a company must evidence on how it conducts itself with its workforce before you give conditional grant assistance.

Michael Cannon: Will you give me an example of a condition?

The Convener: Examples include work terms and conditions; whether employees are full time or part time, how many there are and how a company approaches such issues; and job security.

Michael Cannon: The simple answer is that we do not in particular take such an approach. We look at the business plan and the sector that a company is in. The market is competitive so, if companies want to grow and flourish, they must treat their workforce well, or their business plan will not be executed.

The Convener: So you assume that.

Neil Francis: In general, we discuss with companies their workforces and the characteristics that sit behind the business pledge. As has been said today, we clearly advocate the business benefits of fair work practices. That is all part of our normal engagement in working with companies.

The question is whether we would make a grant conditional on such an approach. At the moment, we do not make it a condition of our assistance. Our approach is very much to engage and win the argument about the benefits of adopting such practices.

The Convener: Did you engage in such discussions or arguments with Kaiam?

Jane Pollock: Yes—the business pledge was part of the on-going agenda that we discussed with Kaiam. That is part of the account management approach; we apply the fair work agenda to our discussions with companies that we support.

The Convener: When you consider grant assistance, do you look at the detail of how a workforce is made up or the conditions in which employees work?

Elaine Morrison: We have specialists who focus on different areas. We said earlier that the Scottish manufacturing advisory service engaged on four project activities with Kaiam. When companies look at their activities, that is not just about the physical layout but about how people are used and maximised.

Linked to that, we have a workplace innovation specialist, who also engages in conversations about how to get the best performance and how an employer can improve productivity by being the best employer that it can be for its employees. That does not go as far as saying in the conditions of a grant that a company must do certain things, but such issues are part of normal conversations that we have with any company and which we had with Kaiam.

Jackie Baillie: I have two quick questions. Is it correct to say that, before 16 November, there were no reports to the Scottish Government about any problems at Kaiam? In effect, you were blindsided by what Kaiam told you.

Jane Pollock: There was no prior communication with the Scottish Government.

Jackie Baillie: You did not anticipate the problems and you were blindsided by them.

Did you or the Scottish Government ask Kaiam at any point to inform the workforce or any contractors of the problems? I cannot believe that you would knowingly allow workers to work on or contractors to engage in new contracts in the knowledge that they would not be paid. Did you ask the company to inform its contractors and its workforce?

Jane Pollock: It was a decision for the company. Right up to the wire, it was clearly looking to find a positive outcome. It was the company's responsibility to do that and its decision to make. As I say, because it was looking to find a positive outcome right up to the wire, it was not—

Jackie Baillie: Sure, but you were told on 21 December that there might be a week's delay in paying salaries, and then you were told the following day that the salaries would not be paid at all. Did you tell the company to tell its workforce or its contractors, because people were working on?

Jane Pollock: We asked the company what its plans would be. It said that it would manage through but that the intention was to meet its obligations. That was the response.

Jackie Baillie: I would have expected you not to ask but to demand that the company shared that information with workers who were going into work or contractors who were engaging in contracts in good faith, when you knew that they would not be paid.

Jane Pollock: We did not know that they would not be paid—

Jackie Baillie: You knew on 22 December.

Jane Pollock: We found out at the same time as everyone else.

Elaine Morrison: On 19 December—if I have my dates right—a meeting took place; we invited partnership action for continuing employment colleagues to attend, to remind the company of its responsibilities, to make it aware of the support that would be available, and to say that, if there were difficulties, the sooner the company could engage and the sooner the employees knew, the sooner we could explore other possible opportunities. A conversation took place with PACE on 19 December on that topic. I was not there, so I cannot say whether that specific point was addressed.

Jackie Baillie: My point—and I will leave it at this—is that on 22 December, the company knew for definite that people were not going to be paid. People still went into work and people still engaged in contracts, but nobody told them.

The Convener: What is Scottish Enterprise's role with regard to the several hundreds of workers who have lost their jobs as a result of Kaiam closing?

Elaine Morrison: We are working with West Lothian Council, Skills Development Scotland and the Department for Work and Pensions. Our key role is to identify—through companies that we work with—current vacancies or business growth opportunities that we can help to accelerate and bring to fruition where there is a job creation opportunity.

In the lead-up to Christmas—on Christmas eve, essentially—we identified over 100 vacancies, details of which were passed on to SDS and to PACE. We are now working with PACE to support the jobs fair that is taking place in Bathgate on Thursday and we will continue to engage in that process to see where opportunities exist. The predominant lead on that work now rests with PACE.

The Convener: Thank you very much for coming. We now move in to private session.

11:53

Meeting continued in private until 12:35.

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