OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Energy and Fair Work Committee

Tuesday 10 September 2019

Session 5

The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 10 September 2019

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ECONOMY, ENERGY AND FAIR WORK COMMITTEE
24th Meeting 2019, Session 5

CONVENER

*Gordon Lindhurst (Lothian) (Con)

DEPUTY CONVENER

*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

COMMITTEE MEMBERS

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

*attended

THE FOLLOWING ALSO PARTICIPATED:

Richard Dennis (Accountant in Bankruptcy)
Kelly Donohoe (Accountant in Bankruptcy)
Lorna Gregson-MacLeod (Highlands and Islands Enterprise)
Dr Wendy Hanson (Scottish Enterprise)
Rachel Hunter (Highlands and Islands Enterprise)
Alex Reid (Accountant in Bankruptcy)
Kenny Richmond (Scottish Enterprise)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy, Energy and Fair Work Committee

Tuesday 10 September 2019

[The Convener opened the meeting at 09:45]

Interests

The Convener (Gordon Lindhurst): Welcome to the 24th meeting in 2019 of the Economy, Energy and Fair Work Committee. I ask everyone in the gallery to turn off electronic devices, as they interfere with the proceedings.

Under agenda item 1, I ask Richard Lyle, who is joining the committee due to a change of membership, to declare any relevant interests.

Richard Lyle (Uddingston and Bellshill) (SNP): Thank you, convener. It is good to be back on the committee—I was on the predecessor committee in the previous session. I refer members to my entry in the register of members' interests. As this committee may look into credit unions at some point, I declare that I am a member of Newarthill Credit Union.

Deputy Convener

09:46

The Convener: As a result of John Mason's move from the committee, we require, under item 2, to choose a new deputy convener. Willie Coffey, who was a substitute committee member, joins us as a full member. Welcome. The Parliament has agreed that the deputy convenership is to be held by a member of the Scottish National Party, and I understand that Willie Coffey is the nominee for the post.

Willie Coffey was chosen as deputy convener.

The Convener: I formally welcome Willie Coffey to the deputy convener's role.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Thank you, convener.

Decision on Taking Business in Private

09:47

The Convener: Item 3 is a decision on whether to take items 6, 7 and 8 in private. Do we agree to take those items in private?

Members *indicated agreement.*

Subordinate Legislation

Debt Arrangement Scheme (Scotland) Amendment Regulations 2019 [Draft]

09:47

The Convener: Item 4 is further consideration of the Debt Arrangement Scheme (Scotland) Amendment Regulations 2019, which are before the committee in draft form. Today, representing the office of the Accountant in Bankruptcy, we have Richard Dennis, who is the Accountant in Bankruptcy; Alex Reid, who is the head of policy development; and Kelly Donohoe, who is the head of debt arrangement scheme and trust deeds.

I invite Richard Dennis to make a brief opening statement before we move to members' questions.

Richard Dennis (Accountant in Bankruptcy): Thank you, convener. We are very grateful for the opportunity to come and give evidence to the committee this morning. DAS is something that we can all be proud of, and you will know that the rest of the United Kingdom is trying to copy it. However, three main concerns are consistently raised with us about it. First, not nearly enough people benefit from the scheme. Secondly, it can be confusing for the debtor to know whom to turn to between us as the regulator, their money adviser and the payment distributor. Thirdly, the current fee system means that how long it takes a person to clear their debts, how much they pay and how much their creditors receive differs depending on who their money adviser and payment distributor are.

The draft regulations target those issues. They have been in preparation for more than two years, with three public consultations. All elements received overwhelming support in the consultation that closed earlier this year and at our annual round of stakeholder events, held in May.

Our first target is to drive up capacity. You might be surprised to learn that Fife and Moray generate far more DAS cases per head than Glasgow. That is surprising, until you look at the number of advisers offering DAS in those areas.

You will have heard last week about the pressures facing the free debt advice sector. Any large increase in provision relies, at least to some extent, on expanding the involvement of the fee-charging sector. One in four of the current DAS case loads is administered by private firms; the figure rises to one in three if you look at cases that have started this year. Those firms charge for their services through a mixture of an up-front fee and a percentage of the monthly payments that are made by the client. On average, that adds around 15 per cent to the payment towards debt, but sometimes the amount can be much higher. In a Glasgow case from a couple of months ago, those fees meant that the client would be making repayments for an extra 77 months.

Draft regulation 4 removes the right for firms to charge any such fees. In the future, clients who enter a DAS could focus on the debt payments. There would be no fees and charges from their adviser alongside the existing protections that stop their creditors adding interest or charges. That would be the same regardless of whether the adviser came from the free or the paid sector.

Removing a source of income is not a good way of encouraging private firms to offer the scheme unless we take other action. Regulation 4 also increases the fee within the DAS to 20 per cent, and brings new opportunities for anyone with the right licences to deliver payment distribution. The 20 per cent—which I know the committee questioned last week—is set at a level that matches the current average adviser fee of 15 per cent, which I have spoken about, and the current average payment distribution fee of between 5 and 6 per cent. That moves the cost of providing both the advice and the on-going service from the debtor to the creditor. From looking at cases from the past three months, we can see that, on average, those who entered a DAS with a private provider would have been debt free at least a year earlier.

Regulation 4 also allows for all organisations that wish to be both a money adviser and a payment distributor to be so, so that most clients will in the future have a single point of contact throughout the life of their plan.

Finally, regulation 4 introduces the power for my agency to act as a payment distributor of last resort to ensure that, if a provider falls over, there is someone who can step in and look after the client to ensure that their plan keeps going.

There are other benefits to the changes. We understand that one of the big constraints in the free sector is that it often takes around six weeks to get an initial face-to-face appointment. That must partly explain why clients still go to private firms and agree to pay fees although they could otherwise get the same product for free from their local citizens advice bureau. Clients who currently choose the free sector because they cannot afford up-front fees will have the choice of going to other firms, because there will no longer be any up-front fees.

By providing a level playing field in that way, there is scope to have the free and private sectors working together and each doing what they are best at without the client facing any difference in fees, whichever route they go down.

Regulation 4 delivers a single point of contact throughout the payment plan. It tackles fees by making them the same, regardless of who the adviser is, and creates the scope for new players to come into the market. It puts the interests of the person in debt front and centre, and it means that more people should be able to access debt relief, more people will be able to get access to the debt payment arrangement scheme, and more people will pay off their debts quicker.

I can expand on any of those points or answer questions on any of the other issues that were raised with the committee last week. The convener asked me to keep my opening remarks brief, so I will stop there, unless members want me to go on to explain the link between regulation 4 and the discussion about funding for the free sector, on which the witnesses who gave evidence last week concentrated.

The Convener: Thank you for that. We will probably come on to some of those other issues, and you can expand on them then.

Towards the end of your remarks, you mentioned the free money advice sector. Funding is currently a key issue for that sector. I understand that the regulations were laid before a decision was taken about how the free sector’s contribution to DAS would be funded. Can you update us on that issue?

Richard Dennis: I believe that the committee received a letter from the Minister for Business, Fair Work and Skills last night. Have all members of the committee seen that letter, or would they like me to read the relevant extract?

The Convener: It might have been circulated, and I might not have read the details if it arrived very late last night. Perhaps you could simply summarise in two sentences—or even three—the position that is set out if you are familiar with it.

Richard Dennis: I am familiar with it, and I want to ensure that I get the minister’s words exactly as he put them. I will just quote the two most relevant sentences:

> “It will not surprise you that the recent consultation produced a divergence of view within the sector, with one third going for an option that would see funds returning directly to those organisations generating DAS cases, and one third going for an option that would see the money added to our general funding for debt advice. I have been considering the views expressed and I propose to allow individual organisations the choice between these two options to promote flexibility, ensuring that the arrangements put in place meet the requirements of each individual organisation by placing that decision in their hands.”

The Convener: What is your view of that? Will it assist the free money advice sector? Will that work?

Richard Dennis: It certainly will work. The committee might not be aware that, under the current DAS regulations, no funding goes to the free advice sector specifically for DAS related to the cases that it generates.

I underline the fact that we are talking about very small amounts of money. Our estimates suggest that we might be talking about less than £100,000 in the first year. It will not make a sea change in the provision of free advice for DAS, but it is a recognition of all the valuable work that advisers do in this area. It is a first toe in the water to see whether this type of approach can deliver real benefits.

The Convener: Do you think that it will mean a resolution at this stage, but that it is not necessarily a final solution to the issue?

Richard Dennis: As a resolution to the issue of funding for the free sector more generally, I do not think that there is anything that we can do by looking at formal statutory debt repayment tools. That is because, as every committee member will know, the hot topic in money advice is universal credit. Most people who come to talk to a money adviser are having problems with the benefits system. I do not want to undermine the importance of what we are doing with the debt arrangement scheme and the valuable work that money and debt advisers do in putting clients into statutory solutions, but that is a very small part of their remit.

The committee will also know—the minister refers to it in his letter—that part of the Scottish Government is now focused on delivering debt policy. It will shortly publish a route map that looks at the funding for debt advice across Scotland as part of the devolution of new powers that has brought part of the Financial Conduct Authority levy funding to Scotland for the first time.

The Convener: Alan McIntosh, with whom you will be familiar, has made submissions to the committee, one of which relates to the idea of having a certain percentage of all funds returned to creditors through statutory debt solutions being used as a source of funding for the free money advice sector. Might that solution work? Why is the current solution better, or worse, or of equal validity?

Richard Dennis: Most of that is a question for ministers rather than us as the administrators of statutory debt products. However, I will make a few comments.

I suspect that members are aware of the fair share funding model that underpins charities such as StepChange Debt Charity and PayPlan. In DAS, for the first time, we are looking at experimenting with a statutory form of fair share. You could see this as a toe in the water before going down that route.

As I have said, most money advice is not to do with statutory debt solutions, so the generic question about the funding for money advice probably cannot be coming from this sector. Members are probably also aware that most bankruptcies produce no dividend whatsoever, and the average return to creditors from trust deeds is well under 20 per cent. Creditors also pay towards the FCA levy that is entirely for the funding of money advice, so there are quite a lot of issues that would need to be worked through and consulted on before we could go any further down this route.

Willie Coffey: In your opening remarks, you said that there was a consultation on the proposals contained within the regulations, and you talked about regulation 4 in particular. Last week's committee witnesses all called for a wholesale review of debt management and debt relief options. Is that call consistent with the proposals in regulation 4 that you outlined a wee while ago?

Richard Dennis: There is no conflict between the regulations that are in front of the committee now and the call for a general review of statutory debt solutions. I will quote the minister's letter again, because, as you might expect, I need to ensure that I stay in line with what the minister said. In section 4 of the letter, he said:

> "I agree that there is a case for a more fundamental and wide-ranging review. I will revert back to you in due course with more detail as to how that can be taken forward and will be very happy to discuss this matter further with your committee."

10:00

Willie Coffey: You mentioned the proposals in regulation 4 for having a single point of contact, tackling the fees and the possibility of paying a year early. Those proposals must have received general approval during the consultation, so, if they are on the table, why are folk still calling for a full and wholesale review?

Richard Dennis: Are you asking about a general review of regulation 4 or of debt solutions?

Willie Coffey: It would be a general review of debt solutions—the big picture.

Richard Dennis: A general review of debt solutions would take time. The regulations that are in front of the committee now will bring immediate benefits to a large number of debtors. Those debtors will be debt-free more quickly, and more people will have access to the scheme. Any wider review will take time and, almost certainly, will require primary legislation to implement, which cannot be done in the short term. There is no conflict between making progress with these regulations and making progress on the general debt landscape. I am sure that the committee will want to talk to me about trustees, even though they are not central to the regulations.

Last week's witnesses were very much focused on the bit of regulation 4 that deals with the funding of the free advice sector. It might help the committee if I set out how what regulation 4 will actually do will lead on to that small return of funds to the free sector. I am happy to try to do that if it would help.

Willie Coffey: I am sure that it would help us.

Richard Dennis: I thought that it would be one of the committee's questions, so I have prepared the answer to this one.

I talked about how regulation 4 will make delivering DAS more attractive to firms and big charities. That is largely because we are bringing together the role of money adviser and payment distributor. It is good for the client, who gets a single point of contact; good for private companies that are frozen out of the payment distribution function by the current arrangements, which we can explain in more detail, if that would be useful; and attractive for voluntary bodies such as Christians Against Poverty that want to take their client the whole way through the journey. They do not want to put somebody into a solution and hand them over to a private firm to do the payment distribution.

I have talked about one in three new DAS cases being done by private firms and 40 per cent of new cases being done by StepChange, so the vast majority now fall into that category and even more will do so in the future. We have created a solution that will allow smaller bodies, when they have a client in front of them who they have assessed as being suitable for DAS, to simply say, "Go down the road, see my friend who will deliver this and there will be no extra fees for you". They cannot do that now, because if they pass the client on, the client will have fees to pay.

There will be some smaller bodies, including those such as the one that Mr McIntosh represents, that do not want to set up their own payment distribution facilities and do not want to hand over their clients, but want to keep offering DAS. We do not want to freeze out such bodies, because we all want to increase capacity. In those cases, we have said that we will handle the payment distribution on their behalf. Originally, we thought that we would be there just as a last resort to pick up cases if the payment distribution fell over, but for the bodies that cannot set up payment distribution of their own and do not want to hand over their clients, we are happy to do it. The downside is that the client will lose their single point of contact, but the advantage for the body is that they will know that they are keeping their client entirely in the public sector.

We have also said that the fees will be the same regardless of who does that work. When I act as payment distributor, I will still collect 20 per cent, so it will be the same fee for the client regardless of who does it. That is as far as regulation 4 goes. It says that I have to charge 20 per cent and there it stops.

My agency does not want to make a profit, which means that we will have the opportunity to return to the free sector the difference between our costs and what we bring in from the 20 per cent. That is the little element that the witnesses at last week's committee meeting focused on. I said that it will be very small—it will be about £100,000 in the first year, taking the most optimistic estimates—so it is a small step to recognising the valuable work that free advisers do.

We have consulted separately on how to return the money, because we want to maintain maximum flexibility.

In reality, we have to suck this and see how it works in practice. We want to maintain the scope to do that. For the first three years, I have said that I will fix my costs at five per cent and return at 15 per cent to give people clear understanding of what is going on. The minister has now made the decision that each individual organisation will have to say either that it wants all the money that is generated from its cases to go back to it, or that it wants it to go into the pot for general debt advice funding.

That is a great benefit for citizens advice bureaux, which were concerned that people would perceive them as having a conflict of interests, in that they might be recommending people into a DAS purely so that they could get their 15 per cent back. Now they can say that they do not want that 15 per cent, which hugely reduces that perceived conflict of interests.

Willie Coffey: It is really helpful for me, as a new member of the committee, to get that level of information.

Is there also a case for improving public awareness of what is a very complex area? Last week, in one way or another, our witnesses said that it is a very complicated area, and that changes that occur in debt legislation can sometimes lead to the development of unforeseen circumstances. Is the issue of providing the public with improved, clear and simple information of concern or interest to us?

Richard Dennis: Yes, it is. I am sure that the point was made to the committee that, although you will see large adverts for protected trust deeds—no doubt on your Facebook feeds or if you have driven over the Kingston bridge—you will struggle to see large adverts for the debt arrangement scheme.

I do not know whether anybody on the committee remembers our “12 days of Debtmas” campaign, but it is no surprise that an agency such as mine does not have the advertising budget of some of those firms. Generating the possibility for them to get active in the sector might readjust that balance slightly. Nonetheless, I completely agree that we need to do more to promote DAS.

Jackie Baillie (Dumbarton) (Lab): In the interests of clarity, will you say whether it is correct that your regulations—in particular regulation 4—make provision for payments to the payment distributors and not directly to the money advisors?

Richard Dennis: Yes, that is right. In most cases, the payment distributor and adviser will be the same organisation, and the payment distributor will take the money so that they are in the right place to collect the fee.

Jackie Baillie: When you say “in most cases”, it is really only StepChange and other private providers that we are talking about, is it not?

Richard Dennis: Yes.

Jackie Baillie: But free money advice providers are not really payment distributors, are they?

Richard Dennis: At present, the citizens advice service is not a payment distributor. However, bodies such as Christians Against Poverty do their own payment distribution work.

Jackie Baillie: Nonetheless, is it accurate to say that the majority of advice providers are not currently payment distributors?

Richard Dennis: That is accurate in terms of the number of organisations, but not the number of cases. The massive majority of cases are dealt with by payment distributors.

Jackie Baillie: Okay.

Last week, we took evidence from a number of organisations from the money advice sector that give free advice. You read out the sentence from the minister’s letter about there being a choice for payment distributors who receive that money. However, that is not a choice that can be directly exercised by money advisers, because they do not receive the payments.

My contention is that you are conflating two things. According to regulation 4, only a payment distributor can get that money. Some payment distributors—including StepChange—provide money advice, so they can use that money to fund their debt advisors, as I expect they would. However, the free money advice sector is not a payment distributor and therefore cannot benefit from the option that you read out from the minister’s letter, because regulation 4 does not give it the power to receive money directly. Is that correct?

Richard Dennis: Regulation 4 sets a single fee for payment distribution. However, in cases such as you are talking about, either they will have appointed us and we will return the money—obviously, we will have our annual accounts externally audited to demonstrate that we return that money and will have taken only an element to cover our costs—or they will come to an arrangement with a firm to hand over those cases. The payment distributor will not get those cases until they come to an arrangement.

Jackie Baillie: Why are you not adopting the approach that is taken down south, which recognises that the overwhelming percentage of the fee should go to money advice?

Richard Dennis: You will be aware that the UK Government is consulting on the breathing space scheme, which has two elements that are akin to a statutory moratorium and a statutory debt repayment plan. The initial proposal is that funding for the statutory debt repayment plan will be a total of 10 per cent, of which 1 per cent will go to the Insolvency Service for administration—currently, 2 per cent goes to administration, here. The Insolvency Service will do all the payment distribution, and 8 per cent will be returned to the money adviser.

We have set up a system in which we think, on average, payment distribution is around 5 per cent. If a private firm cannot beat 5 per cent, the free sector will choose us, so the money adviser will get 15 per cent back. That is significantly higher than 8 per cent, so I am not quite sure where the question is coming from.

Jackie Baillie: It is recognised that there is a crisis in the free money advice sector. We heard that from witnesses across the board. We could spend ages discussing why that crisis has arisen, but it exists. The regulations are an opportunity to incentivise the debt arrangement scheme for the private sector—I understand why you would do that—but there is no recompense for the free money advice sector, which generates a lot of the cases. I think that you have been slightly disingenuous in how you quoted the minister, because that is not what regulation 4 will actually do: that choice is not available to the free money advice sector.

Richard Dennis: I do not accept that. We consulted on whether we should merge the fee or have a separate fee—which I think is what is behind Jackie Baillie's question—and 50 out of 65 responses said that we should merge the fee. Are we right to call it a payment distribution fee? In reality, it is a single fee that is collected at the most convenient point. I do not see how a payment distributor could get that fee in a way that would exclude the money adviser, so I do not accept that the money adviser does not have a way to get that recognition.

I hope that I have been clear with the committee. We are not trying to meet fully the costs of the free debt advice sector through the new regulations; it is only a small recognition of the work of the advisers, who get nothing at all under the current regulations. Is this a step in the right direction? Can we expand on it? It is only meant to test the water.

Richard Lyle: I worked in the debt collection trade for 30 years and I welcome the proposals. However, I am a bit confused, so can you clarify something for me?

Money advice centres and citizens advice bureaux do a lot of this type of work. Are you suggesting that they will do the work but will not get a fee, while companies that currently charge people will still get a fee because they will charge the creditor? Will the money advice centres be able to tap into the fee side of the regulations so that they can get—quite rightly—a return on the work that they currently do for free? Yes or no?

Richard Dennis: Yes. Do you want me to clarify how?

Richard Lyle: Yes—please do.

Richard Dennis: Let us say that you are sitting in a citizens advice bureau and a client comes to you. You go through their income and expenditure and you determine that DAS is the right solution for them. You then have three choices. You can ask us to be the payment distributor, and we will return 15 per cent of the commission direct to you, if that is what you choose; you can reach an agreement with any other payment distributor, who might be able to do things more cheaply than us, and you might get a higher return; or you can simply say that you do not want to deal with the on-going administration from the case—there is an annual review, variations and emergency payment breaks to deal with, which are covered in the regulations. You might say to the client that you do not have time to deal with the administration and need to deal with other clients, so you pass the client on to another organisation at no detriment to the client, because you have identified that that is the right solution. Someone else will run the administration and the client will not pay a single penny for that. In that case, the organisation that does the work will get the fee.

Richard Lyle: That is what I wanted to get at. If the citizens advice bureau passes the case on to someone else, it does not get a fee. The "someone else" gets the fee.

10:15

Richard Dennis: That is the case if someone else is doing the work. If the citizens advice bureau is doing the on-going work, it gets the on-going fee.

Richard Lyle: If it does the on-going work and passes it to you, it gets the fee.

Richard Dennis: Yes.

Richard Lyle: Do you not think that your organisation will take on a lot of work? It is not easy.

Richard Dennis: We are entirely confident that we are ready to take on the work. As I said, the large increases in volume that we expect will largely be for organisations that will act as a single point for the client and take the client the whole way through.

You talked about capacity in the free sector. Has the free sector the capacity to deal with a huge increase in DAS clients? That is an open question.

Richard Lyle: How much will it cost for a computer system to do that?

Richard Dennis: The system is already in place. We are putting in a new computer system anyway, to deal with the debt arrangement scheme. That was needed, because the previous one had reached the end of its life. The extra cost of the payment distribution functionality was around £50,000.

Richard Lyle: Thank you.

Andy Wightman (Lothian) (Green): I will follow up the two previous questions.

You talked about the options that the money adviser has in relation to payment distribution. In respect of the free money advice sector, the suggestion was that the regulations provide for a minimum fee from the payment distributor, rather than something to be negotiated.

You talked about regulation 4 testing the water. Is there merit in giving more guarantees of the minimum percentage that a free adviser might expect to receive from a payment distributor, rather than leaving it purely to negotiation?

Richard Dennis: We think that we have done that by saying that we will return 15 per cent.

Richard Lyle: You will do that, but the option of going to another party is subject to negotiation.

Richard Dennis: Yes.

Andy Wightman: Therefore, the suggestion is that that negotiation could be constrained by, perhaps, a guarantee that advisers get a minimum sum or percentage fee. Effectively, are you suggesting that, if they do not get a decent deal—

Richard Dennis: They will come to us.

Richard Lyle: They will come to you.

Richard Dennis: That is a good backstop. We want to build in as much flexibility as possible, rather than straitjacket the process into a particular form. That is partly because the roles of payment distributor and money adviser are not necessarily as separate as you might think. You might think that a payment distributor is simply managing the monthly payments. However, what if a client misses a payment? The payment distributor gets in touch and says, “You missed your payment. Where is it?” The client has had a life shock and needs money advice. Where would they go for that?

Andy Wightman: Okay. That is fine.

The prospect has also been raised that the new regulations could apply to existing cases as well as to new ones. What is your view on that?

Richard Dennis: The first thing that I want to say on that is that that is complicated and we have not tested it in consultation. What you say is legally and technically possible. We would need to overcome a lot of difficulties. For example, the payment distributors that have that existing case load have all been appointed under contractual arrangements, with varying fees. Some are below 5 per cent; StepChange takes 8 per cent. What would happen to those fees? Would StepChange’s 8 per cent be written down to 5 per cent, with 15 per cent going back? Would that push the overall cost of creditors up to 23 per cent?

What would happen to the private firms that have cases going with existing Competition and Markets Authority fees, which are based on a percentage of the contribution by the debtor? If those fees suddenly fall, and the private firm says, “We don’t want to keep the plan going,” what would happen to such cases?

There are a lot of questions, as well as the general one about whether to do things retrospectively.

Andy Wightman: Could it be made a choice, rather than a mandatory thing? In cases in which doing so would be beneficial to the debtor, they could switch to the new arrangements.

Richard Dennis: In all the cases that are handled by CMA, it would be beneficial to the debtor.

Andy Wightman: So, in those cases, people could have the choice.

Richard Dennis: Theoretically, that could be the case. However, what would happen if all the debtors who are currently paying on-going commissions were to choose to stop paying those commissions? Who would look after those cases? Creditors have all had proposals put to them and have agreed them on one particular basis, which we are now changing. There is scope for a huge range of variations to come in for those cases. It is technically quite complicated, and it is not something that I would like to get into active consideration of until I had had enough time to consult people and understand those technical difficulties. However, what you suggest is theoretically possible.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Last week, I asked the free debt advice sector organisations about the additional work that is necessary to support clients in choosing a payment distributor, because at the end of the day, it is the client who makes that choice. Do you agree that that will cause considerable extra work?

Richard Dennis: Perhaps unsurprisingly, I do not agree that there will be considerable extra work—particularly not for the debtor.

First, building in flexibility and choice for the individual seems to me to be a good thing that we should want to do. We have provided a default, which involves the AIB acting as payment distributor for other organisations.

Until 2011, an individual had the right to choose their payment distributor. That system worked relatively well. We know that debtors were heavily dependent on their money advisers for advice on whom to choose, and we know that, when the system first started, money advisers did not really have much of a feel for whom to recommend. However, by the time the system had matured, money advisers knew that, and debtors fell into line with that.

It is worth saying that there is absolutely no downside for the debtor, regardless of the choice of payment distributor.

Colin Beattie: Do you think that the debtor is well equipped to choose?

Richard Dennis: No, debtors are not well equipped without the advice of their money adviser. However, neither are many debtors well equipped to make the choice between a protected trust deed and a debt arrangement scheme without the advice of their money adviser.

Colin Beattie: So, you agree that the money adviser would have to give information on the choice of payment distributor sufficient that the client could make an informed decision.

Richard Dennis: I will outline how I envisage the process working. Someone comes to me—"R Dennis Money Advice Services"—and I say, "Would you like to do a DAS with me? If you do, the payment distributor will be the AIB. If you would like the payment distributor to be StepChange, you can go down the road and see my friend."

Colin Beattie: So, you are saying that the individual money adviser would have a formal link-up with one particular distributor, but the client would have the choice of going with that or seeking their own option.

Richard Dennis: The client could do that, or go to another money adviser. We know that what I described is what citizens advice bureaux already do with protected trust deeds. Lots of individual bureaux have relationships with a panel of insolvency practitioners, so if they have a client in front of them who needs a protected trust deed, they know to whom to refer them.

Colin Beattie: Does that provide an adequate choice for the client? Given that choice exists, who will give them the informed analysis of which distribution agent is the right one for them?

Richard Dennis: The money adviser will fairly quickly come to know whether they have a link-up with a good firm. If they have a link-up with a firm that they do not think particularly highly of, they will change it.

Colin Beattie: That seems to be a remarkably weak explanation, to be honest. It seems to leave the client either accepting a linked distributor or having to go out and make his or her own decisions.

Richard Dennis: The client would not make their own decision; they would go to another money adviser.

Colin Beattie: So, the client would go from money adviser to money adviser, seeing whom they are linked to. That does not make sense.

Richard Dennis: Why would the client not accept the choice of the original money adviser? There is no detriment to the client with regard to the choice of payment distributor.

Colin Beattie: But it is the client who has to make the decision: that decision should be the result of an informed exchange of information.

I agree that, by that stage, many clients are not in a terribly good position to make that sort of informed decision, which is why the money advisor should be explaining the choices that are available in a form that is simple and easily understood. Will not that cause extra work? To say simply that if the client goes to this money advisor they will be dealing with that distributor, and if they go to another money adviser they will be dealing with that other distributor, is not in the spirit of the law.

Richard Dennis: All I can say is that the system already works in the protected trust deed market, in which local money advisors cannot deliver protected trust deeds. At least the regulations would allow the client the choice to stay with a particular money advisor.

Colin Beattie: That sounds fairly weak. The payment distributor is not compelled to take on cases. Is there a risk that they would refuse to deal with clients who have very little income that they could contribute to the debt—cases that the distributor might regard as unprofitable?

Richard Dennis: Yes—we expect that to happen and we would expect those cases to come to us.

Colin Beattie: The AIB is the backstop.

Alex Reid (Accountant in Bankruptcy): I will make a point on payment distribution and the process of selection. The option to move away from the current procured and contractual arrangements for payment distribution has been pretty well supported—it will provide resilience in the system and create a fallback position. There is support for moving away from the current arrangements.

The key in moving to new arrangements is to retain flexibility in availability of payment distribution services and the firms that can offer those services, and to provide the fallback that the AIB can offer the services. Given that the payment distributor works on behalf of the debtor, and given that there is a move away from the current arrangements to wider arrangements for options for payment distribution, the view is that the proposed arrangements are the most effective parameters within that context.

Colin Beattie: Let me summarise the process. The client goes to the money advisor, and the money advisor says that it has links with a certain distributor and that the client can take that option or go to another money advisor, and then, if the payment distributor decides that the client's case is not one that it can take on for economic reasons, the case ends up with the AIB.

Richard Dennis: That would depend on the arrangement that the advisor has with the payment distributor. We would not expect case-by-case negotiation, which would be hugely bureaucratic. We expect the individual advisor to have a relationship with a firm, which would say that it would take all the adviser's cases for payment distribution—the ones that it can make a big profit on, the ones that it can make no profit on and the ones that it will make a loss on. We expect such firms to take the whole basket.

Colin Beattie: You are making a lot of assumptions about what the money advisors will do. It is a good thing for the AIB to be a backstop, but you are not actually saying that. Are you guaranteeing that you will take on any cases that other payment distributors will not take on, possibly because they consider them to be unprofitable?

Richard Dennis: Absolutely—yes.

Colin Beattie: Are you guaranteeing that no one will be left swinging in the wind?

Richard Dennis: Yes. We will do payment distribution for any case in which someone wants us to do that.

Colin Beattie: I still think that there are a lot of weaknesses and assumptions in what you have said, but I will move on.

Some witnesses have been concerned about the possibility of a conflict of interests for the AIB if it takes on the role of payment distributor. There are other perceived conflicts in respect of developing policy and so on. What do you say to that?

Richard Dennis: I will say several things. The points that were made in the committee the other week were, perhaps, based on a misunderstanding. The work of the other payment distributors is regulated by the Financial Conduct Authority—not by the AIB. The matter of the AIB applying to our payment distribution work different standards to what we would apply to the payment distribution of others does not arise.

I can see a potential conflict in that we might think, "Yippee! We're making money on our 5 per cent! Let's generate lots more DAS cases in any way we can, to get more income." However, as I have said, we have given a commitment that we will only cover our costs; that will be externally audited. If the committee would like an annual extract from my accounts showing our costs and income in that respect, I will be very happy to provide it.

There is a lot of discussion about a potential conflict of interests in respect of our role in bankruptcy. The Institute of Chartered Accountants of Scotland might have raised that with the committee. In bankruptcy, in many cases we are both the trustee and the supervisor of other trustees. Extensive mechanisms are in place to handle such conflicts. I am confident that we could, if similar conflicts were to arise with the DAS, put the same arrangements in place.

10:30

Colin Beattie: Can you confirm that in effect you supervise other payment distributors?

Richard Dennis: As I said, the direct regulation lies with the Financial Conduct Authority. However, I will pass over to my colleague Kelly Donohoe, who oversees the team that checks the work of other payment distributors, to set out what we do to keep that under review.

Kelly Donohoe (Accountant in Bankruptcy): At the moment, we have a current payment distributor panel in place and the team has quarterly meetings with the payment distributors. We manage performance and we look at complaints and any correspondence from creditors that comes in. At the moment, we have oversight of the payment distribution process. However, as Richard Dennis said, we pass complaints to the FCA—the regulatory body of the payment distributors—because it is the FCA that gives them the permissions to do payment distribution. We have oversight of performance and making payments. We contact creditors on an ad hoc basis to make sure, for example, that payments are being made on time and are of the correct amount.

Colin Beattie: The Financial Conduct Authority clicks in only if there are complaints. As you said, the Accountant in Bankruptcy supervises the day-to-day operations of the organisations. If you are providing the same services—some people might say competitive services—surely, that is a conflict of interest. Money advisers might make agreements—formalised contracts—with you or with other distributors. Therefore, the Accountant in Bankruptcy has a financial interest in the whole process.

Kelly Donohoe: As Richard Dennis said, in relation to a financial interest, any moneys that are gathered from the payment distribution process for the AIB as payment distributor would transparently go back to the money advisers who generated the cases.

Colin Beattie: That is not the point. The point is that you are competing with the other distributors.

Kelly Donohoe: The idea is not for the AIB to be competing with anyone. We do not want to compete. It is a backstop. We would act as a payment distributor where appointed to do so by the debtor or the money adviser who is advising the client.

Colin Beattie: You would not seek to have agreements with money advisers, so that you have exclusive distribution.

Richard Dennis: No. I would be extremely happy if no one chose us as payment distributor. We will maintain the capability, because what happens if a big provider falls over and somebody has to pick up the case load? A few years ago, we came close to that situation and it started us thinking, “Heavens! We need the capacity to step in if we have to.” That is what the capacity is for.

If people do not want to come to an arrangement with the payment distributor and they choose us, that is fine. However, from my discussions, I am confident that the 5 per cent that we have set will not be a competitive barrier and will not compete others out of the market.

Colin Beattie: There are still a lot of grey areas in there, but I will leave it at that just now.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Debt arrangement schemes have been in place since 2004. Why make the changes now?

Richard Dennis: Some of your witnesses might have said last week that, as we have learned through experience, we have made regular changes to the debt arrangement scheme since 2004. We have consulted extensively on those changes. We go out to people and ask, “How can we make this better?”, and they come up with a number of ideas, which we consult on. We have a huge amount of support for the proposals. Where we get consensus that proposals would make things better for the debtor, we bring them to you as regulations.

We are introducing the regulations now because it has taken us two and a half years to put the package together. We are now confident that it is the right package. We are confident that the debtor will benefit hugely from this: lots of people will pay less, many people will be debt free more quickly and there will be greater access to the scheme. We have brought forward the regulations as quickly as we could. I would not have been surprised if one of your colleagues had asked me why we had brought them forward so quickly.

Gordon MacDonald: You talked about the fees, which are potentially increasing from 8 per cent to 20 per cent. You also mentioned that the average adviser fee is roughly 15 per cent. Does that not skew the advice? If someone is getting a higher than average fee from DAS, rather than protected trust deeds, will that not skew the advice that is given and the direction of travel?

Richard Dennis: First, the 15 per cent average fee was largely anecdotal and was based on the best evidence that we had. It was not until last October, when the committee very kindly agreed a set of DAS regulations, that we made people declare what their fees were—before that it was simply a matter between the client and the firm. Recent indications are that a 15 per cent fee is lower than average. We believe that the fees will be lower in a large number of cases, so we are not increasing the fee; we are decreasing it.

On perverse incentives, the point that I should have made up front is that the debt arrangement scheme is not for everyone. It is for people who are in debt but who have a significant surplus monthly income. The committee might be surprised to hear that the average monthly payment is more than £400. The vast majority of people in financial difficulties will not have £400 to spare to deal with their debts.

The sort of people we are talking about basically have a choice between the debt arrangement scheme and protected trust deeds. In a protected trust deed, the average fee taken last year was more than 65 per cent. If there was mis-selling—that is a very big if, about which I have things to say, if you would like to ask me about it in a minute—no one would mis-sell someone a DAS for 20 per cent when they could mis-sell them a trust deed for 65 per cent. That is why I do not think that there is a significant danger of perverse incentives for the fee-charging sector.

The return to the free sector might be at most £100,000. Is that enough to make a difference? The free sector is very effectively regulated through the national standards and so on. Moreover, as the committee will know, the free sector organisations are not in it for the money. That is why I am not concerned about the dangers of perverse incentives.

Gordon MacDonald: Finally, you mentioned that DAS is not for everyone and that protected trust deeds are sometimes a better way to go, especially as debts are written off after four years rather than 12, as they are under DAS. I know that DAS is aimed at ensuring that all debts are paid off over a period of time. However, if there is a difference in the fee structure, is there a danger that people who have large debts will be pushed down the DAS route, even if they would get greater benefit from a protected trust?

Richard Dennis: The big difference is that a protected trust deed is a form of sequestration—it is insolvency—so it is in the same market as bankruptcy, whereas DAS is not. DAS is a debt management scheme and is not a debt relief scheme. Do I think that there is any danger that people will be pushed into DAS? It is the debtor’s choice.

Alex Reid: My view is that nothing cuts across the basic principle that, following some advice, people should use the product that best suits their circumstances. If debt relief is required and that is the only sustainable solution that provides them with a way out of financial difficulty, that is clearly the route to take. It is not a question of people being corralled into one solution or another. There should be regulation in place to pick up bad practice and people being clearly in the wrong solution for their circumstances.

However, I agree with what Richard Dennis has said: the revision of the structures that the regulations introduce to DAS offer even less scope to create perverse incentives that might already exist because of the fee structures elsewhere.

Richard Lyle: As I previously said, I worked as a debt collection manager for the Royal Bank of Scotland—Royscot Financial Services. Do you really know what you are getting yourself into? How many staff do you have to take on this work? Have you personally visited a collection company?

Richard Dennis: Yes, we have visited lots of collection companies. Kelly Donohoe and her team spent a lot of time with the existing payment distributors. We currently carry out similar functions when we act as trustee in bankruptcy and when we make returns to creditors. How many staff we need for this will depend on how many cases we are appointed payment distributor for. It will not be a huge number in the first few months and we are entirely confident that we can build our capacity as the workload picks up.

Richard Lyle: You said a few minutes ago that you will not be dealing with clients who pay only a few pounds a week but will be dealing with those who pay, say, £400 a month. Is that correct?

Richard Dennis: Yes, that is the average payment.

Richard Lyle: So you will not be solving everyone's problem—you will solve problems for only a certain few. You will deal with someone at the high end rather than the low end of the market.

Although I was a debt collector, I treated every debtor with respect and I abhorred what some companies did. I wish you well and I agree with you. There were companies that ripped people off left, right and centre with their charges, whereas the company that I worked for collected the debt and only the debt and did not charge people anything more. I have respect for Citizens Advice Scotland and other organisations that deal with people with respect and try to help them, unlike the companies that charge charges and rip people off.

I welcome and wish you well in what you are doing, but I highlight that you will tackle only one end of the market, rather than the whole market, so what we are doing will not solve everyone's problem.

If there were people who went to a citizens advice bureau and wanted you to handle their debt, would you do it, even if they were paying only £20 a week?

Richard Dennis: If it was £20 a week for a debt arrangement scheme, we would.

Richard Lyle: Basically, you are saying that citizen advice bureaux can deal with people as they do—respectfully and honestly—and sort out their problems, then pass the case to you. You can then charge the creditors, which I agree with, and refund money to Citizens Advice Scotland so that, quite rightly, it can get an income from the work that it has been doing for years for free.

Richard Dennis: Yes, I completely agree with all that. However, to enter a debt arrangement scheme, someone needs to have a reasonable amount of surplus income, because they need to be able to repay their debts in full in a reasonable period of time.

Richard Lyle: When I visited people as a debt collector, I used to say that, if they paid £5 a week, they were changing it from the red side to the black side. We just have to treat people with respect, and sit down and discuss it with them.

We have all been in debt at some point. If you are paying off a car, it is a debt—except it is not a debt, because you are paying it. If you paying off a house, it is a debt—except it is not, because you are paying it. However, unfortunately, people get made redundant or hit bad times, and they should be helped at those times. That was my watchword and what I said to my staff.

I wish you well in what you are doing and I want to see it work. I also want the people who have been ripping off customers for years to be finally stopped.

Now I will ask the questions that I should be asking. I was not on the committee prior to today. However, I understand that several witnesses have highlighted issues of poor practice in the protected trust deeds sector, in particular. As you said, there has been heavy advertising, which might not have made clear the consequences of entering a PTD. Is there not a risk that those issues will simply be transferred into the DAS sector if the financial incentives for offering DAS are increased?

10:45

Richard Dennis: I echo all that you said before your question. However, if one of your constituents genuinely had only £5 a month spare and had large debts, they would almost certainly be better off in bankruptcy. One of the advantages of the debt arrangement scheme is that, once someone enters the scheme and it has been approved, their creditors can no longer apply any charges or charge any extra interest, so they only pay the principal. That is how the scheme works.

I am sorry—I have lost my train of thought. Will you repeat your question?

Richard Lyle: Witnesses have highlighted issues of poor practice in the protected trust deeds sector. Do you agree that we have to sort that out?

Richard Dennis: There are widespread concerns about the way in which the trust deed market operates in Scotland. We have been consulting for a number of years, trying to come up with a package to address the issues in a way that will command widespread stakeholder support. I am more than happy to write a note for the committee on the proposals that we have put out for consultation and on the summary response, although it is all published on our website. It is fair to say that we have yet to find a way forward that attracts anything like the consensus that I would need before I could come to the committee with proposals.

Richard Lyle: Right. I have another question that has always interested me.

Debt companies sell debt to other companies. Before they know it, somebody who owes a company £400 will find that they owe it to a different company. It is like a revolving door. The £400 will go to the second company, but they might get paid only £200 and perhaps £100 will go to another company and so on. Meanwhile, people continually get letters after letters. They get offers, such as that if they only pay off £200 of their £400 debt, it will be settled up. However, it remains on their credit file as a debt owed, so it still affects them even when they have paid off what they believe to be their debt. What do you think about that?

Richard Dennis: If the debt has been settled, it should—

Richard Lyle: No, they only partly settle it, so it is down on their credit file as a part payment.

Richard Dennis: This is going off the topic before us, but if an offer has been made for a part settlement to write off the debt, it should be written off in full when paid.

Richard Lyle: That is all I want to know. Thank you.

The Convener: As there are no further questions from members, I suspend the meeting to allow a changeover of witnesses. Thank you very much for coming in.

10:47

Meeting suspended.

10:51

On resuming—

Pre-Budget Scrutiny 2020-21

The Convener: I welcome our second panel of witnesses as we move to item 5 on the agenda, which is pre-budget scrutiny. Starting from my left, from Scottish Enterprise, we have with us today Dr Wendy Hanson, who is the team leader for grant appraisal, and Kenny Richmond, who is the head of insight and economics. From Highlands and Islands Enterprise, we have Lorna Gregson-MacLeod, who is the head of planning and partnerships, and, last but not least, Rachel Hunter, who is the director of service delivery. I welcome all four of you and thank you for coming in today.

I will start by asking some questions about budget scrutiny and our understanding of the evaluation that you do, which requires familiarity with a number of different concepts. Those concepts include gross to net, the difference between direct, indirect and induced impacts and the forecasting of future impacts, in which trying to look into the future is fraught with difficulties. All of that can be confusing for people who are assessing what your agencies are doing. Does that prevent proper scrutiny?

Kenny Richmond (Scottish Enterprise): I do not think that it does, because we use a mix of appraisal and evidence to consider what the potential future benefits and impacts of activities could be. We then mix that with evaluation activity, which considers what the benefits and impacts actually were. Using both approaches gives us a good steer on the type of impact that we are getting from the investments that we are making.

The Convener: Scottish Enterprise produced publicly available guidance on the evaluation of economic impact. Are you aware of other agencies that have done that?

Kenny Richmond: The guidance that we produced draws on best practice in the form of the appraisal and evaluation guidance that has been produced by HM Treasury and the United Kingdom Government. However, although it draws on that, we have adapted it to make it relevant to the types of activity that Scottish Enterprise and Highlands and Islands Enterprise provide. While following best practice methodologies, it is really tailored to the types of activity that we do.

The Convener: Does it also relate to what the Scottish Government's analytical unit does?

Kenny Richmond: Indeed. We look at the same types of indicators and measures, and we consider gross and net impacts. Some of the work that we will do with the Scottish Government's analytical unit around consideration of our future evaluation approaches will make sure that those methodologies are followed.

The Convener: Does anyone else wish to comment on that topic?

Lorna Gregson-MacLeod (Highlands and Islands Enterprise): My comments follow on from Kenny Richmond's point. We do many evaluations using those common methods, and we look beyond Scotland for good practice. The characteristics of our region make it unique. However, it is really important to us that we learn from approaches in other areas. We do some cross-border EU project work, and we are looking at approaches to supporting and evaluating that.

For example, at the moment, we are carrying out a female entrepreneurship project called W-power, working with people in Sweden, Ireland and other areas to better evaluate and test what we are doing with female entrepreneurs, to see whether it is the right approach and how we can measure the benefits. That is broader than just looking at jobs and turnover—it also involves behaviours and access issues.

We also lean a bit more heavily on the qualitative evaluation approach, because of the nature of our region, the lack of statistics and the difficulties in finding control groups and so on. We get a lot of value from that qualitative and cross-border work.

The Convener: Do you think that the way in which you present your evaluation makes it accessible to those who may not have the skill that others have for understanding such evaluations?

Lorna Gregson-MacLeod: They are technical documents, but all our evaluations have an executive summary that is very accessible. The language is accessible, and the summaries are not very heavy on tables and statistics where they do not need to be—they try to draw out wider community and social benefits, and they draw attention to business behaviours. The views of the businesses, social enterprises and communities that we are dealing with are very important, and the approach of using an executive summary alongside the fuller report makes the evaluations more accessible.

Andy Wightman: Given that the money that goes to enterprise agencies and the amount of money that the agencies give to companies is sometimes a little bit contentious and needs to deliver value for the public pound, can you give us any examples of evaluations that you have conducted that have led to significant changes in the way in which you deliver grants to the private sector?

Kenny Richmond: That is a great question. We should never have to wait for an evaluation to know whether a project is delivering at its optimum. Good project management during the life of a project means that we are getting real-time information as we go. We tend not to see evaluations as providing us with startling or brand new insights that mean that we have to make a significant change, because we are working with our management information and evidence in real time. Evaluation evidence tends to provide indications of where we may want to tweak things and gives us evidence of where we are making the biggest impact.

All our evaluations tend to include a set of recommendations, and we pull together action plans around that. Those tend to be tweaks around the edges rather than more fundamental changes.

Lorna Gregson-MacLeod: We have some examples of that. In our evaluations we always ask for recommendations for how to flex our approach if need be. That is a critical part of our evaluation material. One example over the past five years might be our community-led development evaluation, in which the evaluators pinpointed potential changes to our measurement frameworks and what data and measures they capture. They suggested that we should be looking at more long-term impact assessment, because a lot of that is about the communities generating income from assets, which can take some time. For community-led development, there were several key recommendations on how we could improve value for money in relation to where we put our expenditure and on looking to put more of it into the assets that can generate income for communities to bring stability and build growth. We have taken that on board and we want to do more work to tease out that long-term impact model. We are currently carrying out a pilot project on that.

Andy Wightman: I have a specific question about the people who undertake the evaluations, as many of the evaluations are contracted to the private sector. How do you ensure that private contractors are giving you honest and robust evidence, and that the evaluations are not skewed by the contractor's commercial interest in getting more work from you?

Kenny Richmond: All the contractors follow the best practice methodologies. In that respect, we hope that they are looking at things effectively. We do not find that contractors are looking to change the results or evidence either to please us or to please businesses. Sometimes, when we get recommendations back, they can be slightly challenging, although without suggesting dramatic changes. In addition, when our contractors speak to businesses, we ensure that any evidence is anonymous so that businesses feel okay to talk honestly and to provide objective views. That is translated through our contractors. We are pretty confident that we are getting objective views from our contractors.

11:00

Andy Wightman: Okay. As there are no other views on that, I will move on to a question about your evaluation online portal. Over the past 15 or so years, the level of evaluations has significantly decreased. Prior to 2010, Scottish Enterprise alone was averaging about 40 per year; that has now fallen to about five. In 2019, there have been no reports, and in 2018 there were just two. Is there any particular explanation for that?

Kenny Richmond: More and more of our evaluation evidence is highlighting that businesses benefit from a combination of support rather than from just one specific programme or project. Therefore, we have increasingly been moving away from contracting evaluations that focus on a specific project and have been looking instead at evaluations that consider a bundle of activities. In recent years, that has included the evaluation of internationalisation and exporting support, which considered a whole range of projects through which companies were supported. In the past, we perhaps would have evaluated those as individual projects, but our evidence shows that businesses benefit from that combination of support. Therefore, our evaluations are evaluating that combination of support more and more.

We also do internal process evaluations of individual projects that consider management information and so on to get a handle on exactly how the individual projects are operating. However, for large impact studies, it makes no sense to consider those projects individually, as the support network for business is more complex in terms of the types of support that are needed and how that combination works.

Andy Wightman: Nonetheless, can you clarify that that is not constraining your scrutiny efforts in relation to the decisions that you make about, for example, regional selective assistance?

Kenny Richmond: That is not the case at all. For example, we have considered RSA and the evaluation of grants as a whole. We have been doing some evaluation evidence—which is on-going—that considers our grant support as a whole, including RSA, research and development grants and training-plus grants.

That is an example of why we are looking across the piece rather than focusing evaluation on a specific product. Marrying that with the on-going management information that companies receive gives us a good steer on both the overall impact of that combination and on how the individual grants are working in terms of activities.

Colin Beattie: The Scottish budget process obviously is—and has been—evolving, which has resulted in a far more outcome-based approach to scrutiny. Have you had to modify your own measurement frameworks to reflect that? If so, how?

Kenny Richmond: I will cover Scottish Enterprise.

We are making sure that our performance measurement framework links us closely with the Scottish Government's national performance framework. For example, we have headline target measures around jobs, R and D and exports, all of which link to the Scottish Government's national performance framework.

Beneath that, where possible, we also link our internal management information to the national performance framework, which gives us an idea of the activities and outputs as well as the longer-term outcomes. We have, therefore, modified our approach to link with the national performance framework.

Colin Beattie: How difficult has it been to make that change? Every time you talk about statistics, it seems to be enormously difficult—first, to collect them and, secondly, to collect them in the form that you want. How big a transformation has that been?

Kenny Richmond: It has not been a significant transformation, because we have been monitoring a lot of the measures in the national performance framework for a number of years. The measures that we consider are focused primarily on the drivers of productivity and creating quality jobs. Those drivers have been known for a number of years and we have been monitoring them for a number of years, so it has not been a significant change for us.

Lorna Gregson-MacLeod: Similar to the situation that Kenny Richmond outlined, Highlands and Islands Enterprise has always had an alignment with the national performance framework. As a result of the Enterprise and Skills Strategic Board work, we are getting closer alignment between the agencies. A common performance framework is under development, but it has not resulted in a lot of new measures. When it comes to how and when we collect the data, there has been some requirement to adjust measurements. It is not a huge impact. In relation to the social community impact and the inclusive growth model that we want to pursue, some of the things that we would like to do as an agency require system changes. However, that will be woven into our business transformation programme, which is under way. That requires adjustment both to information technology and to data collection. It will take a number of years to come through, but that alignment is there.

Colin Beattie: You mentioned inclusive growth. Nowadays, that is a key theme in Scottish Government policies. How do you measure that?

Lorna Gregson-MacLeod: Highlands and Islands Enterprise and Scottish Enterprise have a range of target measures that relate to matters such as community investments, generating income from assets in communities and average wages. That last relatively new measure has been in place for the past three years. We publish those targets and we track them. We track the quality of jobs and their salaries.

We also look at where the investment is being made. We have a strong place-based approach. We are looking not just at the numbers but at where the impact is felt across our region. We have particular targets for fragile areas. We will work with Scottish Enterprise and the emerging south of Scotland enterprise agency on developing the pilot more accurately to measure inclusive growth.

Numbers alone do not tell the full story. Our board is keen that we look at ways of weighting our measures. For example, three jobs in South Uist have a far greater benefit and impact than three jobs in the middle of Inverness. We need to account for that. We have been doing a lot of data modelling and will be working to develop that pilot to work out ways of weighting for inclusive growth impact on our range of measures. However, formally, we will probably focus first on jobs.

Colin Beattie: Given the nature of the measures that you are dealing with, inclusive growth can be difficult to evaluate. You mentioned the quality of jobs. Do you evaluate that on the basis of salaries?

Kenny Richmond: Yes, that is one mechanism. For example, our business plan target this year is related to jobs that pay at least the real living wage. However, we also monitor high-value jobs, which we define as jobs that pay 20 per cent above the Scottish average wage. For instance, we monitor R and D jobs, which are higher-skilled, quality jobs.

As Lorna Gregson-MacLeod mentioned, for the companies with whom we work most closely, we also track the extent to which they follow, for example, the Scottish business pledge criteria. That is like a proxy for quality jobs. A quality company that follows those pledge elements is more likely to offer quality jobs.

You are right in saying that there is no single measure of a quality job or inclusive growth, so we have to look at that basket of measures, and the Scottish business pledge elements are a good proxy for that.

Colin Beattie: It is important that statistics are constant across the public sector. Is the way that you collect statistics on inclusivity consistent with what is done elsewhere in the public sector?

Kenny Richmond: That is another good question. The introduction of the national performance framework, which is a number of measures that are proxies for inclusivity, will drive different parts of the public sector—at least in Scotland—to follow the same types of measures. The bigger challenge is how we compare what is happening in Scotland to what is happening in other parts of the UK or other parts of the world, where there is still no consistent definition of inclusive growth. That makes it more of a challenge, but at least we can start to coalesce around the national performance framework and take that consistent approach.

Colin Beattie: We should be satisfied if, to start with, we can get the approach consistent across Scotland. From what you say, it sounds as though there are different approaches across the public sector. Is that correct? To some extent, the national performance framework might be starting to pull it together but, when we get down to the base and look at evaluations, is there a difference between what you and other areas in the public sector do?

Kenny Richmond: I am not aware of what evaluation approaches other parts of the public sector are taking in looking at inclusive growth specifically.

Colin Beattie: So you have developed your own model.

Kenny Richmond: Yes. We are working jointly with Highlands and Islands Enterprise and are looking to ensure that the approach that we take is as consistent as possible. Through the analytical units and enterprise strategic boards, we will be looking to ensure that we and the other agencies—Skills Development Scotland, the Scottish Further and Higher Education Funding Council, Highlands and Islands Enterprise and south of Scotland enterprise—use similar approaches.

Colin Beattie: Although it is commendable that you are developing all that, I would have hoped that there would be a uniform approach right across the public sector.

Kenny Richmond: The Scottish Government has been leading work on developing an inclusive growth diagnostic that looks at the range of inclusive growth measures that all parts of the public sector can use, including us. There is a movement towards having a more comprehensive view of inclusive growth.

Colin Beattie: Are we moving towards having not only the same measurements but the same evaluation methodology?

Kenny Richmond: We still have some way to go on that, but we are definitely getting there. Progress is definitely being made.

The Convener: Perhaps I should have said at the start that the sound system is operated for you, so there is no need to press any buttons. If any members of the panel want to say something, they should simply indicate that by raising their hand, and I will try to bring them in.

Gordon MacDonald: We would like to be able to verify some of the activity that you highlight in your annual reports. For instance, in relation to regional selective assistance, Scottish Enterprise has shown that the trends in the number of offers accepted, planned capital expenditure and the number of jobs are upwards. However, if we took one year out of that trend—for example, 2016-17, when 65 offers were accepted and there was £37.5 million of capital expenditure and 1,600 jobs—how could we as a committee verify those numbers subsequently?

Dr Wendy Hanson (Scottish Enterprise): There is verification of what happens in a project. During the course of a project, we track and monitor the conditions to do with jobs and capital expenditure. That goes on all the way through the life of the project.

The project will enter a conditions period, which depends on the type of grant that was awarded. For job creation grants, we look at a three-year condition period for small and medium-sized enterprises and five years for large companies for them to maintain all the jobs in post for that length of time if, from the initial investment, those jobs are 18 months from the final instalment being paid. Research and development grants tend to vary according to the size of the company. There could be one year or two years on job conditions, for example.

To stick with RSA in particular, once we enter the condition monitoring period, we still regularly meet the company either via the account management route, colleagues in the business gateway or members of the team, who go out and assess whether the company is still doing what it said it was going to do and that it has maintained the jobs for the period that it said it would.

The historical evidence that we have on RSA to date is that the companies not only create the jobs that they have said that they would create, and keep them; in general, there is around an extra 10 per cent leverage on top of that in respect of other jobs that have been formed on the back of the RSA. It probably overdelivers against what we predicted and forecast at the beginning of the grant.

Obviously, if we ran into an issue with a company that was not doing what it said it would do, we could look at the conditions of the contract and consider clawing back funding appropriately relative to the number of jobs that there are compared with what it said there would be.

There are mechanisms for us to be absolutely spot on and know what the company did. The payment profile is a good real-time reckoner for us because, if we pay out against what we contracted to do, the company is definitely delivering what it said it would deliver.

11:15

Gordon MacDonald: I accept that you guys monitor companies' performance and claw back funding, where necessary. I also accept that it can take three to five years before whatever was planned in relation to jobs and capital expenditure is delivered. My question is this: where can we see that evidence? In 2012-13, for example, you will have said, "The planned number of jobs is X and the expected capital expenditure is Y." Five or six years down the line, where in the annual reports can we see what actually happened? I think that you said that you get a 10 per cent bigger bang for your buck. Where do we see that?

Kenny Richmond: We do not publish that information, but we can pull it together and share it with the committee. Basically, it is just management information. It is not something that we hide, but we do not publish it, I guess because we have not had requests for it in the past. We can easily share it with the committee.

Gordon MacDonald: If you are saying that you are delivering 10 per cent more than you expected to deliver, surely that should be something to shout about.

Kenny Richmond: Yes, potentially.

Wendy Hanson: Yes, it is a good-news story. We have never been asked to report on that statistic, but we track it internally, project by project. It struck the organisation that it would probably be useful to track it on a more global basis for different grants and products. There are many measures that we could collect; we could certainly produce something that would give the committee the confidence that it is looking for.

Gordon MacDonald: Thank you.

HIE said in its annual report:

"We approved £54.6m to support 564 new projects representing a total combined investment of £185m. This will deliver well over 1,000 jobs".

How did you arrive at those numbers?

Lorna Gregson-MacLeod: The analysis in the annual report is captured at the time when the investments are made, through the economic impact assessment work that we described in our submission. That is the data that goes into the annual report. As you said, it takes time before the actuals come through. We capture actual data at the end of year 3, for most things, although for things such as distilleries, which require a longer stream before they come to fruition, we take a different approach.

Audit Scotland highlighted the issue that you raised. It is a good point. In the data in the annual report, we talk about what has been approved to be forecast—if you like. This year is a holding year, in that we have committed to doing a bit more analysis, so that we bring in more of the actual data next year, because such an approach is necessary.

Given that doing things on a year-by-year basis is not that helpful, we tend to do the analysis over three or five years, which provides a richer picture and a story to tell. We do that regularly, looking at the internal regional impact and how different measures are playing out across different types of investment, sector and scale of business. We regularly do such analysis internally, and we are committed to drawing it into our annual report next year.

Dean Lockhart (Mid Scotland and Fife) (Con): Can changes in inclusive growth really be measured objectively? To my mind, that is almost impossible, given that "inclusive growth" is not an accounting or financial term but an outcome towards which people want to strive. Does the panel agree?

Kenny Richmond: You are right, to a certain extent. As we said, there is no single measure of inclusive growth, and what the concept means to one person might be slightly different from what it means to another. I guess that that is why we use a basket of measures.

We ensure that companies that receive RSA grants adopt the fair work first criteria, so that, at least, is one way of getting an indication that RSA supports good-quality jobs.

Looking at that basket of measures gives us a proxy for the types of benefits that we are getting and the types of jobs that are being created.

Lorna Gregson-MacLeod: I agree that it is challenging; we are doing this pilot because there is a gap. Kenny Richmond was right to highlight the diagnostic as a tool to identify the challenges that an area has; it is not particularly about measuring what you are doing for that area or for a group of people. With the pilot, we are trying to look at the characteristics of the people and the place and we are seeing whether we can work those characteristics into how we measure our impact. There are ways of doing that; it is not scientific, but we can combine it with other evidence-based research.

For example, we can look to our research on young people to tell us whether they feel that there has been a change in the area that they live in, whether they want to come back or stay in that area, and whether the job opportunities are there but the academic offering or the infrastructure is not. The role of HIE is to have an impact on that. We can measure what is happening through our research and through the pilot and the basket of measures. If we combine all those approaches, we can get a better story to tell and a better indication of what we are doing and whether we are doing it in the right way and in the right places.

Rachel Hunter (Highlands and Islands Enterprise): Inclusive growth evaluation is challenging. I lead the eight area teams across HIE and we have a place-based approach. Inclusive growth helps us to flex our approach. Recently, we invested in a caravan park on the island of Fetlar, which is a small community in Shetland. An economic development agency would not normally make such an investment, but by doing so, we made the community hall, the cafe and the local heritage centre more sustainable because of the increased footfall coming through that small community. The impact is difficult to measure but, as officers on the ground, we can see that community confidence has been boosted, which helps communities to develop more projects. I agree that inclusive growth is difficult to measure, but it has certainly focused our minds on how HIE delivers services on the ground.

Dean Lockhart: Evidence from previous sessions indicated that the key performance indicators for each enterprise agency are set and monitored internally. Will the panel members explain how the KPIs are set? For example, are they signed off by the Scottish Government? What role does the Scottish Government have in agreeing the KPIs? Also, do panel members recognise that if KPIs are set, monitored and measured internally, there is a degree of concern over their transparency?

Kenny Richmond: We use a range of evidence when we set the KPIs. They are linked to the pipeline of potential activity in the year ahead, what we have achieved in the past, the wider macroeconomic environment and what we know our budget will be. We use a mix of criteria to set those KPIs, which are agreed by our board. We are stretching where we can—that is why we put the KPIs within a range. The KPIs are shared with the Scottish Government. They are not signed off by the Scottish Government as such, but the Government sees them and can comment on them if it wants to. It is difficult to make assessments of what we will achieve, but by giving that range, and basing the KPIs on a range of criteria, we think that the KPIs are robust and stretching. We publish our year-end results, which gives transparency around how we have progressed against those KPIs.

Rachel Hunter: It is a similar process for HIE.

Lorna Gregson-MacLeod: We would also look at dealing with our sponsorship team in the Scottish Government and liaising with the strategic board. We look at pushing some of the boundaries on targets—for example, this year, we increased our fragile area job target beyond what we thought would normally be achievable. We will flex to try to push investments in those areas.

Rachel Hunter: We are in a demand-led organisation and have a good pipeline of commitments on our books. That is how we generate the measures for the next year. Lorna Gregson-MacLeod is right. We try to push certain targets, particularly on jobs in more remote and rural areas.

Dean Lockhart: You share the targets with the Scottish Government, but does it typically give you detailed feedback, or sit down and meet you to discuss the targets in detail?

Kenny Richmond: It does so in general terms. Colleagues of mine will meet the relevant team in the Scottish Government to discuss the targets. Generally the feedback has been that they look okay and that we should go ahead. We share our targets with the Government before we publish our business plan.

Dean Lockhart: I want to explore some of the numbers that Scottish Enterprise helpfully provided in annex A of your written submission. I am not sure whether you have those numbers in front of you. I want to check some of the trends underlying the numbers. For example, on clawback of RSA, there is a significant jump in the 2019 numbers. In 2018 the clawback was £2.3 million. In 2019 it is down as £6.7 million. I want to check what underlying trends sit behind that increase.

Wendy Hanson: That number also struck me when I saw it. It includes the recovery of funds from a company that went bust in Dundee, which is repaying us £6.3 million. If we take that amount off the figure, it is actually down at £400,000 which is quite a normal, average year for clawback.

Dean Lockhart: Does that explain why the other grants that were provided to that company in Dundee were also clawed back?

Wendy Hanson: Yes.

Dean Lockhart: In table 2, there is a drop in RSA grants from £17.1 million last year to £12.6 million this year, but an increase in other grants from £72 million in 2018 to £102 million this year. I want to get a picture of the underlying drivers behind those numbers.

Wendy Hanson: Which table are you referring to?

Dean Lockhart: It is table 2 on RSA expenditure.

Wendy Hanson: Bear with me while I look at it—sorry.

Dean Lockhart: It is basically showing a drop in RSA grants from £17 million last year to £12 million this year, compared with an increase in other grants from £72 million to £102 million.

Wendy Hanson: Okay. There is a slight drop in RSA grants, which is partly due to foreign direct investments. Sorry, that is expenditure. I apologise. I was looking at the wrong thing.

Expenditure fluctuates greatly depending on how the companies are progressing. Clearly, an RSA grant, like all the other grants, pays out over a number of years. An initial award is announced of so much money to be spent, but that is drawn down only over two or three years. It may be that the £12.6 million paid out on RSA in 2019 is a reflection of fewer grant offers having been made, one, two or three years previously, or just of a slowdown.

On the other grants that have increased, I can speak, for example, on the research and development grant, which I also look after. There has been a huge increase in activity in that particular area. More companies are bringing forward more projects with greater complexity and ambition, and that has driven up spend in the area of R and D, which is part of the other grants line in table 2.

Dean Lockhart: That is helpful. Thank you.

Jackie Baillie: Most of my questions have been covered, but I never resist an opportunity to ask more. A table that I cannot see here is one on the decline in the number of jobs, because while the RSA line is declining—as highlighted by my colleague, Dean Lockhart—the number of jobs relative to the money that is spent is also declining. Is there, in your evaluation, an explanation for why?

Kenny Richmond: There is not a specific explanation in the evaluation. Wendy—do you have one?

Wendy Hanson: The schemes are demand led; companies ask for the products and processes that meet their ambitions. If they are not bringing forward as many jobs-related projects, the number of jobs might be skewed down the way.

11:30

Some of the grants that we offer are not jobs related. For example, the research and development grant is not a job-creation grant, although through that grant we can sometimes create or safeguard thousands of jobs or, in another year, hundreds of jobs. That is specific to the grant offer that we have been asked to support.

Jackie Baillie: RSA is linked to jobs, though—

Wendy Hanson: Yes, it is, but much depends on the breakdown of what companies have applied for, which might be skewed towards more capital-intensive projects that might not have many jobs related to them, or towards aid for job creation. I cannot give you the breakdown of funding in that regard today.

Jackie Baillie: I would be interested to see that, because the trend is showing a decline, over time, in the number of jobs that are being generated. I am interested in whether the underlying causes are understood. Is there just a general shift, or is it happenstance? We do not know.

Wendy Hanson: I would be happy to provide written feedback. Of course, when the state aid rules changed in 2014, under the general block exemption regulation it became very difficult for large companies to apply for RSA funding, because they could not meet the new GBER rules. Therefore, in effect, 99 per cent of the time the scheme supports SMEs, which tend to have lower job counts. The number of jobs that are being created is decreasing naturally, because we are relying on the SME base rather than on large companies that come in and set things up. There are exceptions, obviously, but I think that that is why there is a declining trend. I would be happy to provide more evidence on that.

Jackie Baillie: Colin Beattie asked how you assess the quality of jobs. Will you explain the process? How, at the start of an application, do you assess how many jobs will be created or safeguarded? Is payment of the Scottish living wage a requirement for a company to receive RSA?

Wendy Hanson: As part of our due diligence on RSA grants, we look at what the company is asking for and the return that Scotland will get. With the RSA scheme, there is always a jobs element; the company will say exactly how many jobs it proposes to create and safeguard as part of the project. We ask for information about that—in particular, evidence is required to prove that the jobs that the company says it will safeguard are genuinely at risk.

The job numbers are then set in stone, in a contract, so that we can track and monitor the situation throughout. The grant is paid on delivery—when the company creates new jobs or safeguards jobs—throughout the contract's lifetime.

From 1 April, there have been conditions that all project-related jobs in our large grant schemes must be paid the fair living wage, and that no zero-hours contracts are allowed in the projects.

Such issues are brought up with companies right at the beginning. As soon as we get wind of an RSA application, we go out and meet the company at an inquiry meeting and ensure that it is clear about the rules and eligibility criteria. I am pleased to say that, so far, all the companies have risen to the challenge. To be fair, I point out that 93 per cent of RSA projects were already paying the real living wage before the new rule came in; now, we really are up at 100 per cent. No company has been turned away because it was not paying the real living wage, and no company has withdrawn an application because it could not do so. If anything, circumstances have improved for company employees.

Jackie Baillie: I am pleased to hear that, given that we advocated payment of the living wage for a long time.

Gordon MacDonald started talking about how much has been clawed back. Is your evaluation sensitive enough to be able to pick up emerging problems at companies, or is that the responsibility of the account manager? I am thinking about Kaiam Europe Ltd in Livingston. Would your evaluation have spotted that the company was experiencing difficulty?

Wendy Hanson: Emerging problems happen in real time, whereas an evaluation is a retrospective exercise. The account manager and other team members who visit the company are, largely, responsible for understanding the company's position.

In my team, we can tell from the grant-management process how the project is progressing, because a company puts in claims for the money that it has spent, so we can track whether it is meeting its milestones. The accounts are produced by certified accountants who audit the claims for us as they submit them. There are therefore two ways of getting information—from the account manager who goes in regularly to talk to the company about what is going on, and from the requests from the company to support its claims about how the projects are progressing, which gives us another way of understanding whether a company is starting to get into difficulties.

Willie Coffey: I know that evaluation does not stand alone—Wendy Hanson has just been talking about that. I want to ask about the murky world of econometric analysis in which you engage. Without going into detail, how can you be sure that the statistical stuff that you do is robust enough for the sample sizes that we are likely to have in Scotland?

Kenny Richmond: "Economics" and "murky" are quite often brought together in a phrase.

There are probably two broad methodologies that we use for evaluations. One is to take companies that have been supported and a control group of companies in the economy that have not been supported. Through economic techniques, we look at how those two groups have performed over time. The Fraser of Allander institute is in the middle of some work on that for us, with the benefit that we do not get survey fatigue issues with companies because we do not have to go out to survey them.

However, that method has its downsides. To what extent can you get an adequate control group when you are comparing assisted companies with non-assisted companies? You can create a control group based on the size of the company and the sector that the company is in—what we call observable criteria. However, other criteria within companies are less observable—how good the management skills are, how ambitious the company is and so on—so it is less easy to get a control group for them.

The other method is to survey companies and go out to speak to them. The benefit of that is that we get qualitative evidence on what is working, but it also has its downsides. For example, if we had supported a company three or four years ago, the people who were involved in that project might not still be with the company, or might not remember exactly what the company was doing then. However, that is a way to get evidence and feedback from a company on how it thinks support has been beneficial.

There is no perfect way of doing it, but if we use both methodologies and they come out with broadly the same findings, that gives us a pretty good steer that the findings are robust. If we marry those with the real-time assessments and information that we get back about companies, the three elements give us a pretty good idea of how well projects are performing.

Willie Coffey: How does the evaluation process make positive changes to what we might wish to do in the future? I am sure that you agree that there is no point in conducting evaluations then always doing the same thing year in and year out. We know that we have record employment levels in Scotland. What is the trigger for thinking that we should change and adapt the model, and improve the process that we engage in, in order to try to achieve greater benefits, perhaps in parts of Scotland that have not been reached by such activities and interventions?

Kenny Richmond: In considering what we are doing and how we might want to tweak things, we draw on a mix of evidence sources, including formal evaluations and the real-time intelligence that we get from our businesses and partners on what they are picking up. We can look at what is working and what the challenges are, then consider potential projects and the support that we can we put in. That all helps to raise ideas or issues that we might want to look at.

We also engage with our companies and our customers to get their views on how well the process is working to support companies: we ask whether we could do things more quickly, for example. That is fed into our work on the single business portal in Scotland, which will be a one-stop shop for businesses that are looking for advice. That work is based on the feedback that was collected as part of the enterprise and skills review.

There is a wide range of sources of evidence that we can draw on to see how well we are doing, the benefits and impacts, and whether there are things that we need to consider and tweak. It is probably the same for Highlands and Islands Enterprise.

Rachel Hunter: Both organisations are committed to continuous improvement—that is embedded in how we work. As an economic development agency, HIE always starts from the point of development, so we are always looking for new opportunities. Through the Enterprise and Skills Strategic Board, we are working to see how we can improve our services for customers and ensure that our clients and customers are at the heart of what we do. We need to understand their needs. We also want to use digital technology to speed up, ease and personalise services for our customers. There are many opportunities. We are evolving and using customer surveying techniques, focus groups and digital technology to improve our services for the future.

Willie Coffey: Can you give examples in which you have changed your approach? I am looking at the table that was mentioned earlier and is in annex A of the Scottish Enterprise submission. It outlines all the RSA grants and all the sectors that benefited. I will make a shameless plug for my constituency in Ayrshire, which might seek a greater slice of such activity in the future. How would you make that change? If the agency is doing well in certain areas and the results are sustainable, on what basis do you decide to shift the emphasis to another part of Scotland that might need assistance? Have you done that, or is that just not what you do?

Lorna Gregson-MacLeod: HIE has a very strong geographical focus. We have a range of measurements of what is happening across our area, and we look beyond our area to see whether there are mechanisms that we can learn from in order to make a greater impact. It is very important to build that into our evaluation. I mentioned female entrepreneurship, which is just one example. We also took that approach with account managed businesses when we carried out an evaluation back in 2015. The breadth of evidence can support different approaches.

The inclusive growth pilot is very important in showing that evidence. It can be more than an evaluation tool—it can also be a resource prioritisation tool. If we can get it to work effectively, it will show us something that is like a heat map of different types of disadvantage across our area, which we can then use as a tool to prioritise resources better.

Willie Coffey: Have you done that?

Lorna Gregson-MacLeod: The pilot has just started. We have learned from evaluations when a programme or initiative works better in an area. For example, in community-led development, evaluation has found that the important ingredient could be a particular person. That evaluation looked at the role of the community development officer in a community-based organisation, who might take on a wider community role, and at the impact that that can have. That is wedded to having a person in geographic locations—if such organisations do not have such a person, they have a smaller impact. We use the findings to use that model somewhere that needs such help. We learn from and reflect very hard on evaluations.

Willie Coffey: This is my last question. Several members have talked about employment levels and the workforce, and we know that productivity is the key to adding real value and increasing gross domestic product in Scotland. How do we use programmes and interventions to increase productivity?

Kenny Richmond: One of the focuses of RSA is to help companies to invest in capital. We know from a wide range of research and evidence that one of Scotland's challenges in respect of productivity is our low capital investment rate, so we are helping companies to consider investing in capital and supporting them to do that. The evidence shows that capital investment is a driver of productivity, so that should feed through to increased productivity. The situation in respect of our research and development grants is similar: evidence shows that companies that undertake R and D tend to be more productive than those that do not, so R and D grants are also a driver of productivity.

We look at how all our types of support influence the drivers of productivity so that we ensure that we can make the link between what we are doing and the impact on productivity, which—as Mr Coffey said—is really important for driving high-quality jobs, increasing wages and so on.

11:45

Rachel Hunter: Investment in human capital is very important, particularly in the Highlands and Islands, where there has been market failure in provision of high-level leadership and management training. We invest significantly in that area, and companies have transformed their working practices and their processes—how they do things—because of investment in high-level leadership and in the Scottish manufacturing advisory service's lean learning academy. There are a range of interventions that we can make to support better quality leadership and management in Highlands and Islands firms.

Kenny Richmond: That is a good point. A number of companies that receive RSA also receive other types of support. The combination of support in leadership, workforce development and exporting makes the difference in driving productivity.

Jamie Halcro Johnston (Highlands and Islands) (Con): I apologise to the panel for not being here earlier in the meeting. I am sure that other members from the Highlands and Islands will accept that it is sometimes hard to get down from there.

I will follow on from Willie Coffey's questions. The panel has talked about the geographical breakdown. How accurate is your evaluation of return on investment in areas such as Orkney, Shetland and Moray, given that they have different priorities? If we increase business in Orkney, there will be pressures, given the limited number of people there who are looking for work. Moray has a low-wage economy, so a different approach is needed.

Lorna Gregson-MacLeod: There are probably two points that are relevant. We set different targets within the region. In our operating plan, we present the regional targets, but all the areas have different targets that reflect their economic context.

You mentioned employment in Moray, so there might be a focus there on particular investment and measures, whereas the focus in the Western Isles might be more on fragile jobs. The targets are set internally, in different ways, to reflect economic circumstances. We must have cognisance of that when we do economic evaluation.

As I explained earlier—it might have been before Jamie Halcro Johnston arrived—it is important that we know the relative impact of what we do. Impacts can fluctuate quite drastically between our more urban areas and town centres and our islands, including the fragile parts of them. We are trying to create a tool to measure what we should do in a different way. We are not there yet, but we are building up the data and the stories. I hope that we will be able to enhance the pilot by the end of this financial year, so that we can build that information into the evaluation work. It is important that we have a different way of viewing numbers. They should not be viewed in isolation, because the geographical context must play a key role for us.

Jamie Halcro Johnston: As well as the work that you do, there are other agencies that support economic development, including council departments and business gateways. How closely do you work with them? How helpful can they be in bringing back information for the evaluation? Does co-location and collaboration help with that? If so, is co-location your preferred option in most cases?

Rachel Hunter: I work in Shetland, and I am co-located with the economic development department of Shetland Islands Council. That close working relationship is extremely valuable. The area teams in HIE have very close relationships with business gateway, because we have to support each another. It provides feedstock for the future, and we refer businesses to it.

Given that HIE is listed as a partner under schedule 1 to the Community Empowerment (Scotland) Act 2015, there is a legal requirement for us to collaborate and to facilitate and support community planning with our local partners. We take that responsibility very seriously across the area offices. Economic development is not just about investing in particular businesses and communities; it is also about transport and communications infrastructure. We need to work with other partners to ensure that infrastructure is in place to support businesses and community growth.

Jamie Halcro Johnston: When I visited business gateway Shetland last year, it came across that co-location can be very important. If co-location were brought in across the Highlands and Islands Enterprise region, would there be improvements in the areas where it does not happen now?

Rachel Hunter: If the potential exists for co-location, it can be a very positive thing, but I do not think that an absence of co-location is detrimental to the relationship. Co-location in the same premises is probably more efficient.

Jamie Halcro Johnston: I appreciate that it is not always a HIE decision.

My final question is a follow-up to Dean Lockhart’s question about inclusive growth. Would it be easier to deliver and evaluate inclusive growth if there was a single definition of it?

Lorna Gregson-MacLeod: Even if there was a single definition, it would be open to interpretation. What inclusive growth feels and looks like in the centre of Glasgow will be different from what it feels and looks like in the Highlands and Islands, where businesses and communities will have different priorities and face different challenges. Similarly, the opportunities that land at their doors will look and feel different.

In Scotland, we share the same concept and we understand what that is, but we need to look at the issue from a particular organisational or regional perspective. It is very important that HIE does that, given our social and community remit.

Kenny Richmond: I agree. That is why it is important to have a basket of measures. As Lorna Gregson-MacLeod said, inclusive growth can mean slightly different things in different parts of Scotland. Having a basket of measures is probably a good way to pursue inclusive growth.

Richard Lyle: No one can disagree with the fact that Scottish Enterprise and Highlands and Islands Enterprise have done a good job, but as someone used to say to me, “That is now water under the bridge. What are you going to do tomorrow?”

I notice that there were quite a number of failed applications. You say that the figure is only 6.5 per cent, but am I correct in saying that that figure relates to applications from account managed companies, or does it relate to applications from companies that are not account managed?

Wendy Hanson: I would have to give you that statistic separately, because I do not have it to hand. I can tell you that only 50 per cent of RSA awards go to account managed companies, so there is a chance that only 50 per cent of what we call rejections are of applications from account managed companies.

There is often a good reason why an application does not progress to an award, which will be to do with something that the company has told us. I do not think that whether a company is account managed would have an influence or impact on that. There is close working with the appraisal team so that we can understand what the company is trying to do. It is only if the company supplies information at the application stage that makes it ineligible, or if it cannot meet the criteria, that we would have to reject the application.

Richard Lyle: Since 2014, the total number of applications has fallen from 145 to 83—that figure is from 2018. What are you doing to increase the number of applications that are made? How are you encouraging new applications, new products and new innovations?

Wendy Hanson: The RSA scheme is strictly bound under the state aid guidance that we use. We have only so much flexibility around what we can offer companies. The downturn was due to the inability of large companies to apply for funding—that is why the numbers shot down. Since then, we have worked extremely hard with our SME community to remind everybody that the scheme is still open for business. Although we still get applications from large companies, we get only one or two a year, so we are relying on our SME base to deliver the RSA measures.

We work very closely with different agencies and bodies to get across the message that the RSA scheme is still open for business. We look to our SMAS communities of practice and we present results to the Scottish local authorities economic development group. SLAED is very good at charging the business gateways with the task of stimulating activity. We spend a lot of time on the road promoting the schemes. We also do it through the usual electronic mechanisms, such as the web. Every time there is an RSA success story or an award is made, we put out a tweet to stimulate further activity and spread the message. That is starting to work. Although the number of offers is in decline, their value is increasing so the SMEs are generating more complex, interesting awards.

We get to work with companies early in the process. Often when we visit a company it tells us what it plans to do and we ask whether it has thought about training and other elements that we could weave in. We also ask about its long-term growth plans—whether it is thinking about just one project for the next two years or about what it will be doing in five years' time. Getting involved in such conversations with companies early in the process improves their aspirations to bring us bigger projects on which we can deliver. Although the number of offers has arguably decreased, their complexity and value are starting to increase because of the groundwork that we are doing with companies.

Richard Lyle: I go back to Mr Coffey's question about the slice of the cake that an area could have. Is there a regional target or could a funding breakdown by constituency be provided—or would that be too technical?

Wendy Hanson: No, we can easily draw that information together and provide it after this meeting. For example, one option would be for us to break it down by local authority area.

Richard Lyle: We must also remember that some constituencies fall under two local authorities.

Wendy Hanson: Yes, I was aware of that when I was preparing for the meeting and trying to work out where all the committee members sat. [*Laughter*.] I had a list of projects against various members' names, and sometimes the same projects appeared in relation to different people. We will provide that information in the format that we think will best suit the committee.

Richard Lyle: So you were prepared for some of us to ask, "Where is my share of the cake?"

Wendy Hanson: Absolutely.

Richard Lyle: Thank you.

Willie Coffey: For a number of years, I have been trying to persuade NHS Information Services Division and others to give members statistics and information on our own constituencies, but we rarely get them. They are provided in relation to local authorities, health boards or this or that, but rarely on the basis of our constituencies. For any aspect of this work, it would be very helpful for members to be told how their constituencies vary across the piece, if that is possible.

Wendy Hanson: Okay. I will be happy to supply that after the meeting.

Willie Coffey: Thank you.

The Convener: Dean Lockhart has a quick follow-up question.

Dean Lockhart: My question is about demand and the decline in applications. If and when the Scottish national investment bank is up and running, significantly more funding might be available for enterprise development. How would such an increase match up with the declining demand in the marketplace that you have described?

Wendy Hanson: A key differentiator between what Scottish Enterprise does and what the Scottish national investment bank will do is that we are a grants-led team. Therefore, we look at making unsecured investments in companies, whereas the bank's team will largely look at making loans to them. The solutions for companies will depend on looking at them case by case.

We have challenging conversations with companies whenever they come and ask us about money. We look at whether a loan would be more appropriate for them than a grant. A company's financial circumstances will determine whether it can meet the requirements of either of those options, and we can then provide the right type of financial assistance for it because we have two different offerings. I expect the future demand for grants to remain high because there are companies out there that, for whatever reason, just will not be able to secure loans.

The Convener: As members have no further questions, I thank our witnesses very much for coming in today.

11:58

Meeting continued in private until 12:58.

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