OFFICIAL REPORT
AITHISG OIFIGEIL

Economy and Fair Work Committee

Wednesday 17 September 2025

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Wednesday 17 September 2025

CONTENTS

Col.

ECONOMY AND FAIR WORK COMMITTEE
25th Meeting 2025, Session 6

CONVENER

*Daniel Johnson (Edinburgh Southern) (Lab)

DEPUTY CONVENER

*Michelle Thomson (Falkirk East) (SNP)

COMMITTEE MEMBERS

*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
*Murdo Fraser (Mid Scotland and Fife) (Con)
*Stephen Kerr (Central Scotland) (Con)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Lorna Slater (Lothian) (Green)
*Kevin Stewart (Aberdeen Central) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Stuart Black (Highlands and Islands Enterprise)
Anthony Daye (South of Scotland Enterprise)
Sandra Dunbar (Highlands and Islands Enterprise)
Adrian Gillespie (Scottish Enterprise)
Jane Morrison-Ross (South of Scotland Enterprise)
Kerry Sharp (Scottish Enterprise)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy and Fair Work Committee

Wednesday 17 September 2025

[The Convener opened the meeting at 10:00]

Decision on Taking Business in Private

The Convener (Daniel Johnson): Good morning, and welcome to the 25th meeting in 2025 of the Economy and Fair Work Committee. Do committee members agree to take in private, under agenda item 3 of this meeting and in future meetings, discussion of our pre-budget evidence?

Members *indicated agreement.*

Pre-budget Scrutiny

10:00

The Convener: Under agenda item 2, we will take evidence from enterprise agencies, starting with Scottish Enterprise. I am very pleased that we have with us Adrian Gillespie, the chief executive of Scottish Enterprise, and Kerry Sharp, its chief financial and investment officer. I believe that they are both ready and willing to launch straight into answering questions.

Enterprise agencies are incredibly important in allowing us to support business, enterprise and industry in Scotland. We are carrying out pre-budget scrutiny, so we want to understand the financial effectiveness of the money that is provided to our enterprise agencies and the value that that creates. As a former businessperson, I like to understand the bottom line. Scottish Enterprise was provided with £225 million when the budget was set, but the figure rose to more than £280 million after budget revisions. What proportion of that figure was provided to businesses in the form of grants and loans in the previous financial year?

Adrian Gillespie (Scottish Enterprise): The majority of our running costs come from our resource budget, which is about £110 million a year. Everything other than that goes to businesses through grants, loans or investments. That is the proportion.

The Convener: According to the table on page 97 of your annual report and accounts, your operating expenditure is £175 million. What proportion of that—

Adrian Gillespie: There are lots of non-cash adjustments, transfers and other such things in there, which we do not really have control of, so that does not tell the whole story. I just want to flag that.

The Convener: From reading your annual report, I slightly struggle to identify the hard-nosed and bottom-line points: the total sums going out the door and their effectiveness. Pages 13 and 14 contain several measures, such as 15,000 jobs being safeguarded, £442 million of innovation investment and £1.16 billion of capital expenditure. Obviously, those figures are in excess of your budgets; those are not direct outcomes. How do you ensure that those stated outcomes relate to your activities and interventions and that they are a fair measure of your impact?

Adrian Gillespie: We take evidence from the companies that we work with. We have a very sophisticated evaluation model that has been developed over many years and that we continue to develop. We have to provide auditable evidence of our impact, and we collect that evidence from the companies that we work with.

Some of the evidence will be from grant funding, but a lot relates to the support and advice that our people give. It is not all about money. In fact, a lot of what lies behind the figures that you mentioned, some of which are record figures—for example, the figure of £2.4 billion for export sales is a record—is the advice, support and market access that our people in the field provide. They provide companies with a soft landing, support them through trade shows and introduce them to distributors in other countries. We evaluate what companies get from that kind of support. For example, if a company visits the United Arab Emirates for a trade show and is introduced to our GlobalScot network and customers, we evaluate with the company the impact of that on its future sales. That is the evidence that flows through to the results that you see today.

The Convener: Those are all indirect outcomes and benefits. Do you have a clear analysis of direct benefits—in other words, projects that Scottish Enterprise wholly or partly funded and the results that they achieved? Are those benefits reported in your annual report? I struggled to identify them.

Adrian Gillespie: The annual report shows the leverage that we got through our capital grants, for example. I think that the figure was about £80 million, but we tend to leverage four or five times that amount—we can show this directly—through regional selective assistance grants or research and development grants. Similarly, there is direct evidence of growth funding being leveraged from the private sector as a result of the funding that we provide to companies through our investment function.

I would not refer to some of the support that I referenced earlier as indirect support for companies. I think that it is direct support, because the investment that we make in our people flows through to support for companies.

The Convener: I understand that point—it is direct support—but the things that you are measuring are indirect and broader, as opposed to direct outcomes from expenditure. That is the slight differentiation that I am making.

Adrian Gillespie: I see the differentiation that you are making. It could be more straightforward if we were to say that we had provided a certain amount of money and the private sector had provided a certain amount of money, with that leverage being demonstrated, but I want to make the point that companies often value the other support that I mentioned more highly than they value financial support.

The Convener: That is understood. With that, I will hand over to Lorna Slater.

Lorna Slater (Lothian) (Green): I have three questions. The first is about community wealth building. When the committee has been taking evidence on the Community Wealth Building (Scotland) Bill, various witnesses have talked about how the enterprise agencies should and can be involved in community wealth building. What role should Scottish Enterprise have in community wealth building? Last year, in a similar session, I asked about how much focus Scottish Enterprise was directing at supporting co-operative social enterprises and other more democratic business models, as that is one of the key elements of community wealth building.

Adrian Gillespie: The major contribution that we make to community wealth building is in creating and protecting high-value jobs, but we contribute to communities in many other ways. For example, we do so through our property ownership and our work to promote fair work. For many years—almost 10 years—fair work has been a condition of our funding. More recently, we have made net zero a condition of our funding, too. We contribute through regional economic development—the majority of the experience that we bring relates to regional development rather than local development—but we are involved in community planning partnerships.

We get involved in communities in a host of areas. For example, our investment in the development of innovation districts—there is the Edinburgh BioQuarter and the advanced manufacturing innovation district in Inchinnan—has a big impact on the local and wider communities through job creation and the placemaking aspect, because such districts are often in areas of regeneration. We contribute to that agenda in a host of areas.

Lorna Slater: My next question is about the sectors that are supported. Josie Saunders, who is the chief executive of Ceteris, which runs the Business Gateway contract for Clackmannanshire Council, emailed me in frustration about many of the businesses that Ceteris supports having outgrown Business Gateway. She said that, although Scottish Enterprise staff have been helpful, small successful Scottish companies that she feels have so much potential—she listed a prebiotic drinks company, a food manufacturing company, a destination management company and gin and whisky distilleries—have not been able to secure Scottish Enterprise support, even though she feels that those are exactly the kind of growing companies that we ought to support in Scotland. Can you help me to understand why such businesses might not get support and how you choose which businesses to support?

Adrian Gillespie: Last year was the first year in which we fully implemented our missions approach. We have got behind three missions: accelerating the energy transition, scaling the best innovation that we have in the country and boosting capital investment, with the aim of increasing productivity and wages. Those are the areas of focus, because we feel that those are the areas in which we can make the biggest contribution to supporting the economy with the resources that we have, which have been declining. We have to continually refocus our resources towards the areas in which we think we will have the best impact. We have done that by choosing those three missions. We support growing companies that are not directly related to those missions if they have a growth proposition, but we have to continually refocus where we put our resources.

That said, we have founded the find business support portal, through which any company from across the country can access support. Many partners are involved in economic development, including Business Gateway, local authorities, universities and other networks. There is a whole ecosystem of people who support companies. We are not the only player in that regard. Plenty of support is available, so I encourage businesses to use the find business support portal to see what is available and which agency or organisation might be best to support them.

We work with thousands of companies each year, and we try to accelerate their growth internationally. That is where we perform at our best. We are geared up to support companies that are innovating, scaling and growing internationally. It would be in nobody's interest for us to try to support companies that were not trying to do that, because we would not be the right organisation, with the right skill sets, in those circumstances. However, I am always happy to look at any company that feels that it could benefit from Scottish Enterprise's support, and we will engage with it to understand whether that is the case.

Lorna Slater: As you know, I have a political interest in the ethical considerations relating to funding to arms dealers—I support the First Minister's move in that regard—so I am interested in your comments about human rights checks. Further to my previous question, it is frustrating to hear about small companies being unable to get funding when BAE Systems, which made £3 billion in profits last year, and Raytheon, which is the second biggest arms company in the world, have received funding. However we feel about the morality of the decisions that such organisations make in relation to which countries they sell arms to, it seems very odd that those huge organisations are getting money from Scottish Enterprise when small growing businesses are not able to get support. Do you want to comment on that?

Adrian Gillespie: We help many small growing businesses through our investment funds, our innovation funds and the one-to-one support that I talked about earlier. It is not the case that we work only with large companies; we work with companies that have a growth agenda, no matter their size. The large international companies that you are talking about are able to choose where they make their investment across the world, so it is clearly in our interest to ensure that the business case for Scotland stacks up. That is a different kind of support from the support that we would give to a small company that was growing very quickly and was looking for equity funding and investment partners. We do all that, so it is not the case that we focus on only one part of the economic development landscape.

Murdo Fraser (Mid Scotland and Fife) (Con): Good morning. I will ask about your accounts, but I will first follow up on Lorna Slater's final question about defence companies. We have seen some very good news in the past few weeks, such as defence contracts for BAE Systems, with £10 billion-worth of orders. We also hope that there will be some good news for Babcock in Rosyth, which is in the area that I represent, with a potential £1 billion order for new frigates. There have been some changes over the past few weeks in the Scottish Government's approach to support for defence. What is your understanding of what Scottish Enterprise can or cannot do in supporting defence companies?

Adrian Gillespie: We have supported many companies, particularly with diversification, job creation and skills. For example, we supported BAE Systems very recently with its new-build hall and the establishment of the Clyde maritime partnership.

Human rights due diligence has been in the news a lot this year. The point that I will make on that is that it is not just a defence issue. We conduct human rights due diligence on all the companies that we work with. The issue has been particularly brought into focus with defence companies, but it is something that we do with all companies. We did a very thorough review and established that we had not put funding into the development of munitions. However, we wanted to tighten things up, particularly in light of the geopolitical situation. We have taken significant steps to do that exercise more frequently—we do it annually now—and to increase the scope of the companies that fall within our human rights due diligence work. We have done all of that.

10:15

We are working through the implications of the changes that have been made recently. Quite a lot of work is going on—Kerry has been deeply involved in it, and I will ask her to comment in a minute. We are working through the implications in relation to the kind of companies and projects that we can support in the future. Our understanding of what the First Minister relayed recently is that, for the current period, companies that are developing munitions and have a relationship with Israel will not be eligible for funding from the Scottish Government or its agencies. We need to work through which companies are affected by that. We will need information and declarations from those companies, and we are working through that.

Kerry Sharp (Scottish Enterprise): I am happy to come in on that. We are very clear about the Government's intent, which is about a direct connection to military equipment that is directly making its way to Israel. We are working through the practicalities of that.

We are very clear that the supply chain is a concern—ensuring that the opportunities from defence for those companies is taken into account and that there is nothing that runs counter to that. However, the practicality of putting things in place will take a little bit of time. We are working very closely with the Government to make sure that we can deliver on that intent without any unintended consequences that may have a wider impact.

Murdo Fraser: The supply chains for defence companies internationally are very complex. Leonardo, for example, supplies radar systems for Lockheed Martin and employs a very large number of people in Edinburgh, who are, in the main, in very well-paid, well-skilled jobs. It might well be that some of those F35s will end up being sold around the world—who knows? However, there is clearly a knock-on impact from any decisions that are taken because of the complexity of the supply chains. It must be quite complex to try to unravel that.

Adrian Gillespie: That is what we are working through at the moment. The supply chains often do not know where their technology will end up because—for good reason—that is secret. That is the kind of implication that we are working through.

Murdo Fraser: I have one more question on this. What is the definition of munitions?

Adrian Gillespie: There are several definitions of munitions that we have been working through over the past few months.

Murdo Fraser: Let me rephrase that question. When the Scottish Government says that it is not going to fund munitions, are you clear what that means?

Kerry Sharp: The Government's policy has now changed, so that is not a challenge any longer. We are quite comfortable with the current position.

Murdo Fraser: That is a very diplomatic answer, thank you.

I want to ask about your accounts. I was having a look at your most recent accounts for the period to March 2025, which were published in June, I think. In that period, you wrote off balances to a total of just over £31 million. It was reported in June that another enterprise in which you had made investments valued at £20.2 million had notified you that there is a risk that that might be written off. I absolutely understand that when you make investments there is always a risk that some of them might not be successful, but that strikes me as quite a high percentage compared to your overall level of investments. Do you think that that is a reasonable sum to be writing off in the context of the total investments that you make?

Adrian Gillespie: Typically, our write-offs in any year are between £20 million and £30 million. The figure varies—it is higher this year because there was a substantial write-off of £17 million, which related to the Arjowiggins Group. That clearly affected the overall total. The issue comes around every year—rightly, as it is right that it gets scrutiny—but we are operating at the really risky end of the market. We are operating with very early-stage companies or with companies that are substantially at risk because of the condition that they find themselves in but which are important employers in the local area. That was the case with Arjowiggins, for example, which was an important part of the economic landscape of the north-east. It is inevitable that we will have write-offs if we operate in that space. If we did not have write-offs, we would not be doing the right things, frankly. We would not be operating in the riskier end of the market, which is where we should be.

Through our investment function, we measure write-offs relative to our income and we look at the private sector. We tend to be broadly in line with the private sector in the early-stage market. Clearly, there is a different agenda if you are talking about large companies that are risk, but we seem to be broadly in line with the market with write-offs for early-stage companies.

I point to the fact that our write-offs get the headlines every year, but the income that we generate every year does not really attract the headlines. We generated over £60 million of income this year, and over £100 million of income over the past couple of years. Like the write-offs, that income is based on investment decisions, some of which were made many years ago. I will always point to our income and the impact that we have, as well as the fact that there will inevitably be write-offs in each year. The write-offs are not really reflective of our previous year's performance; they tend to be reflective of situations that arose many years ago, and the accountancy process is now working through to the write-off stage.

Murdo Fraser: Thank you for that.

I have one more question on something else that I noticed in your accounts. This is a quote from your accounts, which say that there is

"significant uncertainty and complexity of the laws/legal environment within which SE operates."

Can you elaborate on that for a layman? What does that mean?

Adrian Gillespie: I will ask Kerry Sharp to come in, but the comment reflects things such as competition law and directors' liability, rather than pointing to a specific law or anything like that. Our legal team has been providing advice to us over the past couple of years about areas where I may be personally liable for decisions that are made, for example. Competition law has changed fundamentally over the past few years. We now have United Kingdom competition law rather than European competition law. There are also things such as the national security framework, under which investments that we make may be subject to national security scrutiny. If they were not scrutinised in that way, there would potentially be severe implications for the leadership or for me personally. The comment reflects such issues.

Kerry Sharp: Adrian has covered most of it, although subsidy control is the other one. The changes from state aid have been quite complicated and lots of new schemes and programmes are looked at. It is quite complex because a lot of this has not been done before and sometimes we are the first mover on some of these things. Our role is always to make sure that we are very clear on all the legislation and on how to navigate the risks that come with that, as well as the opportunities to do things differently. As you know, we are very ambitious for what we want to do in Scotland. With that comes trying to do things that we have not done before and, therefore, we need to make sure that we have got the balance right in terms of risk. The legal side of that is important.

The Convener: I want to ask a brief supplementary about write-offs. Typically, early-stage investors will have a rule of thumb that they follow—a hit rate of, say, one in 10 or something like that. Do you have a benchmark that you use for your success rate with early-stage investments and, conversely, your write-offs? Is the level of write-off in line with that target? As you say, in some ways, too few write-offs might mean that you are not taking enough risk.

Adrian Gillespie: Our early-stage investment write-off is only part of that £30 million. Kerry, do you want to come in on that one?

Kerry Sharp: There are a couple of points to make. On the income and the write-offs, you need to look over a longer period. Markets are cyclical, particularly in relation to investment activity. Over the past five years, say, our average write-offs are down at £22 million annually and income is at £108 million—so income is five times as much, which in itself is quite a good figure.

In terms of our wider investment activity, we have been operating with an early-stage portfolio for quite a long time—since 2003. It is quite helpful to look at it on that basis. Let me give you some stats. We invested £965 million over that period, and we have leveraged £2.65 billion of external capital, which is flowing into Scottish companies. The income over that period is £536 million—I think that that is the number; I will double check it—and the write-off over the period is £197 million, so, again, almost three times as much income has come in. The write-off level is about 20 per cent of the overall investment level. That is very much in line with what we would expect in a high-risk area. We are gap funders and work in the early stage and, as Adrian Gillespie said, that is the highest-risk area. However, we are quite comfortable with where that all sits and that we are getting the outcomes that we are looking for.

The Convener: Do you set an explicit target for those metrics?

Kerry Sharp: We do not set a target. We review the position continually and make sure that we are comfortable with where it sits. Obviously, there are times in the market when we want to be counter-cyclical—we might see some of that coming through. The key is to look at it over a long enough period to make sure that we are content that the income is flowing in as it goes through peaks and troughs, and that the write-offs are at the right level for us.

The Convener: The point that you just made about the longer-term view was very interesting. Would you be able to provide the committee with that analysis of the investments over that period?

Kerry Sharp: Absolutely—no problem.

The Convener: That would be very helpful. Thank you. I will bring in Gordon MacDonald.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Good morning. On the write-offs, for clarification, how many companies were involved in that £31.5 million write-off? What proportion is that of the total number of companies that you are investing in?

Adrian Gillespie: We will get that figure for you. Another point that I will make while we are getting that for you is that we do not invest in these early-stage investments on our own. We invest alongside private investors. We are taking the same risk, although it is a smaller proportion because we are a minority investor. We are filling that gap, as Kerry said. We are scoping out whether we need to go further, given the investment landscape, which is difficult across the world, so the situation in Scotland is not unique. Things are quite tough for companies in the energy transition area, so we are looking to see whether we should go further.

There is clearly an added element of risk in some of those situations, but I make the point that the investment landscape is tricky from the point of view of finding follow-on investment. Companies that might be at risk might be looking for follow-on investment. For example, a good company in a growing market might be finding it really hard to get the next phase of investment, particularly in relation to capital-intensive investments, and energy transition tends to be quite capital intensive. We are scooping out whether different things need to be done.

Kerry Sharp: I have found the numbers. Thirty-two cases were involved in the £32 million. When it comes to early-stage investment activity, 17 companies were involved. Our portfolio at the moment is about 332 companies, so it is quite a small proportion.

Adrian Gillespie: We do about 100 early-stage investments a year.

Gordon MacDonald: It is a small proportion of the total. Okay, that is fine.

You mentioned that this is the first full year of your mission-driven approach to investment. There are a number of targets in your operating plan. How did you perform against those targets? You mentioned that exports are at a record level. Are there any other areas that stand out?

Adrian Gillespie: In food and drink there have been some complexities with whisky exports, with some opportunities that are harder and some that are opening up. We have seen a huge increase in our food and drink exports to the middle east in particular, with the United Arab Emirates becoming a really important export market for us. We have a great team there that has developed some fantastic relationships that are paying off now. The USA continues to be a really important market for us, particularly in technology and food and drink. China and the far east are still important technology markets.

I am particularly pleased to have those record results in what has been quite a tricky year for exports, during which there has been quite a lot of worry as well as change in export markets. We have been supporting companies to navigate through some of those complexities.

Does that give you a strong enough sense? The middle east is an area that is really growing in importance for us, but markets such as the USA, Germany and France continue to be important. The middle east is where the additional exports are coming from, but we are still doing well in those core markets.

Gordon MacDonald: One of the other points that you raised was about your declining resource. However, your annual report shows that your total income was £294 million and your total expenditure was £288 million. You have generated a surplus of £6 million. Why did you not use more of that surplus to invest in and support companies?

10:30

Adrian Gillespie: It is not possible for us to land income exactly on expenditure—it is just not possible. For example, in, I think, the last week of the financial year last year, we had an investment exit. We had income the timing of which we had no control of—we did not know that that was going to happen, but it came in with a week to spare, so we ended up with a surplus of income over expenditure. We think that we landed pretty close, given that we cannot overspend and have to come as close as we possibly can.

We would like to be able to carry over and reinvest our surplus from year to year. That would have advantages. For example, artificial end-of-the-year accounting is not recognised by a lot of the companies that we work with. We have to land on our position on a particular date in the year, which can mean that there is a huge amount of activity over the last couple of months of the financial year. We think that there is a better way of doing that, which we are currently discussing.

In addition, we are managing three budgets. We have our resource budget, our capital budget and our financial transactions. We have three headline budgets and are trying to land on them all exactly. We also have a number of transfers from the Scottish Government each year, which are for specific areas of expenditure—hydrogen funding, for example—and which can only be spent in those areas. We are trying to balance a whole host of budgets and sub budgets to maximise them. It is a complex task.

Gordon MacDonald: My final question relates to a footnote in the annual report about the number of patents and intellectual property applications that you have supported. The number was over 200, which is an increase of 5 per cent. How do you assist in that area? Obviously, we want Scotland to be the centre of innovation, and central to that is the number of patents and rights to IP that we hold.

Adrian Gillespie: We have a small intellectual property team of four or five people who advise companies on intellectual property strategies and how to protect intellectual property, and also around bringing in investment to protect their intellectual property. Private sector advice is also brought in, depending on the scale of the project. I do not know whether there is anything more that you want to say about that, Kerry. I know that you want to come in.

Kerry Sharp: I want to come in on that final point, but also on the early-stage portfolio that we were talking about earlier. A huge amount of that portfolio is in the innovation space, and a huge amount of expertise is directed towards that. We are talking about early start-up spinouts—high-growth companies that usually have intellectual property or technology at their core. We try to direct our specialist support to help them on the growth journey, so a lot of that work is in there as well.

Gordon MacDonald: Thanks very much.

Stephen Kerr (Central Scotland) (Con): I have a question for Kerry Sharp. I think that I understand perfectly where you are coming from in terms of the risk and the cost of risk. When the media were covering the issue of the losses, it was mentioned that you had revealed that you anticipated a particularly big loss in the current financial year. Does that suggest an out-of-the-ordinary level of loss, or would that fit the profile of the losses and write-offs that you would expect to see from year to year?

Kerry Sharp: It was noted in the accounts because of the timing of it. It came to our attention after we had had the full audit done, before the accounts were signed off. It was not noted because of the value; it was noted just because of the timing of our receiving the information. The value—not the cost of the investment, which is another thing to note—is quite a large number, but, ultimately, our profile is based on quite a number of large investments, some of which might not fit the trajectory of peaks and troughs that we talked about. So, it does not, in itself, cause us any particular concern outwith the normal.

Stephen Kerr: It is not an extraordinary item.

Kerry Sharp: No.

Stephen Kerr: Okay. Murdo Fraser touched on the issue of risk. How do you explain the risk appetite of Scottish Enterprise?

Adrian Gillespie: We have a risk appetite framework, which our boards are involved in setting with us, and we are hungry for economic development projects. We are hungry to take risk where the private sector finds doing so particularly risky or where a particular risk is associated with an area that is in its early stages of development. That is what we are about. We should be hungry for that kind of risk.

Stephen Kerr: How important is additionality in the calculation of that risk?

Adrian Gillespie: It is vitally important.

Stephen Kerr: Do you see yourselves as being additional? Would things not happen unless you were involved, and is that how you measure the output that you report?

Adrian Gillespie: Absolutely, yes. Additionality is absolutely core to any assessment that we make of a funding application or award.

Stephen Kerr: So, there is a balance in how you allocate your resources to supporting businesses through investing and providing business services.

Adrian Gillespie: Yes.

Stephen Kerr: Would it not be helpful if you did one or the other? For example, when it comes to additionality and risk—I am not saying that this is what I think, but this is what I am putting to you—would it not be better if that was covered by, for example, the Scottish National Investment Bank? It exists for additionality and to carry some high-risk items. Do you understand where I am coming from?

Adrian Gillespie: Additionality is critical to both us and the Scottish National Investment Bank.

Stephen Kerr: But why have two agencies that are providing that, in effect?

Adrian Gillespie: Well, we do different things. The Scottish National Investment Bank provides scale-up funding within a certain range, whereas we provide early-stage support. We are building a pipeline of investments that will go on to access SNIB or other funding, but we also do many other things to support companies to scale up. We help them to trade internationally and to build their leadership teams.

Stephen Kerr: Are they sufficiently distinct roles?

Adrian Gillespie: I think that they are, yes. From that point of view, we work well with the Scottish National Investment Bank. We started in the early-stage area, and we are now working particularly effectively around inward investment as well.

I would point to the new ZeroAvia facility, which was announced a few months ago, and the Inchinnan centre for hydrogen propulsion that will enable zero-emission aviation. We were both involved in that deal, and there are many more projects that we are working on at the moment in that sphere whereby there is a mix of our support and potentially some grant funding, because there is a gap in the business case, but also funding on a commercial basis from the Scottish National Investment Bank. It is a really powerful mix.

Stephen Kerr: You had a budget reduction at the beginning of the previous financial year. What impact did that have on the activity that you are describing? In other words, what did you cut?

Adrian Gillespie: I mentioned that we have had to refocus. It is not that we have taken out complete lines of our operation; we have just had to refocus, and we are focusing on what we do well. I mentioned international investment innovation, and we focus on that through the lens of the three missions. That already makes us more focused in terms of where we channel that funding, but we have had to make efficiencies as well.

There is a range of things that I could cover if they are of interest in terms of—

Stephen Kerr: I am interested specifically in shared services. The issue was raised by the Deputy First Minister in a letter to the committee, and we were told that the three enterprise agencies are working together to achieve that. What has been achieved?

Adrian Gillespie: We have shared services in a couple of areas, one of which is our information systems. We have had that for many years, and we continue to try to build and grow that partnership. It is led by Skills Development Scotland, and we are the two largest organisations involved in that shared service. We also lead the shared audit service across a number of partners, including South of Scotland Enterprise and the Scottish Funding Council. Again, it is something that we are looking to grow, and not just for financial efficiency. We can build a lot of efficacy through having that cross-organisational view and sharing best practice, risks and any insights that we gain. All of that work continues.

I mentioned earlier the find business support portal, which Scottish Enterprise led with a number of partners including Business Gateway, local authorities, Highlands and Islands Enterprise and South of Scotland Enterprise. That has been opening up all of the business support in one place for any company that wants to access it.

Those are the things that we have been working on. I would say that the next area will probably be digital data.

Stephen Kerr: The Deputy First Minister specified that there was an exercise currently under way. That was in December. Have you produced anything from that exercise that would help me, as a committee member, to understand exactly what the next level of those shared services and potential cost savings would be?

Adrian Gillespie: It is about expanding the existing services. We have not identified any new areas. We investigated some, but the savings were either not there or minimal. We looked at procurement, for example, and some very small teams are bringing it together, but we could not identify any specific savings from additional volume and resource. We have investigated, but there have not—

Stephen Kerr: No new efficiencies were found.

Kerry Sharp: I will just add one point. The business support partnership, which we lead on, has a number of activities under way at the moment, which are all looking at this area. One of them is about optimisation and efficiency across the landscape. We hope that that work will come up with some ideas of how we can do things differently.

Stephen Kerr: At the heart of this is the issue of productivity, which is a chronic issue in Scotland's economy.

To build on the point that was made by Lorna Slater, many businesses—small and medium-sized enterprises—feel that there is a gap between Business Gateway and Scottish Enterprise support and that they fall within a range where there is not the support that you described. You said that there is lots of support out there, but they do not feel that way—they feel as though there is no support for them. Would you provide the committee with a breakdown—anonymised, obviously—of the sizes of the businesses that you are helping? You said that there are thousands, which suggests that SMEs must be a part of that.

Adrian Gillespie: A very important part.

Stephen Kerr: Their productivity—the long tail of SMEs, which is a chronic issue in Scotland and in the UK as a whole—needs to be tackled. Would you be able to provide us with that information?

Adrian Gillespie: Yes, we would. The last time that we looked at it, over 80 per cent of our awards were to very small organisations that are growing.

Stephen Kerr: For productivity-related issues?

Adrian Gillespie: In terms of our grant funding—our grant awards—yes.

Stephen Kerr: Can you identify for us some specific investments or grants that have been made, or some productivity improvement programmes, as examples of what is happening with that money.

Adrian Gillespie: Yes, absolutely. We can share case studies with you. We have lots of case studies of companies that we have supported exactly to improve their productivity. I can think of many companies for which support for capital investment in their manufacturing processes—investment in a piece of kit or whatever it may have been—has massively increased their productivity. We have lots of examples.

Stephen Kerr: I have one last question. How big a part of your overall aim is the improvement of Scotland's productivity?

Adrian Gillespie: It is the third of the three missions that I mentioned.

Stephen Kerr: So, resources are flowing to that.

Adrian Gillespie: It is about bringing capital investment in with the express aim of facing into the challenge of low productivity in Scotland. We chose that as one of our missions.

Stephen Kerr: It is just that we do not seem to make much progress from decade to decade, according to the statistics.

Adrian Gillespie: We have been closing the gap for more than a couple of decades now, and we can relate our financial support, particularly things like RSA grants, to that increase in productivity. There is clearly a long way to go. We are far from the top of the league compared to our competitor nations, but that is absolutely why we chose it as one of our missions. It is not a straightforward issue to face into, but that is what Scottish Enterprise should do. We should be looking at the structural issues within the economy that we want to change in the same way as we changed the early-stage investment markets through two decades of early-stage co-investment funds.

That is exactly what we are doing, and we have been using artificial intelligence to find companies that we have never worked with before but that have the potential to increase their productivity. There is lots going on that I can share with you, but, fundamentally, we need to invest more.

Stephen Kerr: These are the hard yards of your remit, are they not, compared with some of the big-ticket, more glamorous aspects of what you do? A lot of this is nitty-gritty. It is about basic business essentials, is it not?

Adrian Gillespie: Yes—and, for us, investment. We can help businesses to make the case to invest for higher productivity, because higher productivity means higher wages and a wealthier economy, and that is what Scottish Enterprise should be here to deliver.

Stephen Kerr: Thank you for that. I look forward to getting that information and seeing what the profile is and the specific examples.

Adrian Gillespie: I am also happy to take you out to some companies that we have worked with, which have done exactly that, so that we can show you what we have done.

Stephen Kerr: I would love that. I will take you up on that.

The Convener: That information would be very useful. Although case studies would be useful, summary information on the totality of that funding and the high-level criteria that are applied would be most useful. My understanding is that the criteria are applied to particular sectors and to companies of particular ages. Could you clarify the criteria that are applied to the productivity funding and the other grant streams?

Adrian Gillespie: Sure.

10:45

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Good morning, Adrian and Kerry. Could I continue for a moment or two the discussion about the interventions that you can make locally? You kind of answered the question at the outset, Adrian. You have a national and a regional focus, but somebody like me, from Kilmarnock and Irvine Valley, long laments the loss of Enterprise Ayrshire and looks askance at South of Scotland Enterprise. I feel that we have lost the kind of intervention that the enterprise agency offered many years ago.

My questions are in and around the local impact that you can make. You have partly answered the question in answers to Stephen Kerr and Lorna Slater, but how do you see Scottish Enterprise's role in assisting the regeneration of towns such as Kilmarnock, Ayr and Irvine?

Adrian Gillespie: Scottish Enterprise does change over the years. We change in all sorts of ways—in terms of our remit, our budget and that kind of thing—but we are deeply involved in the Ayrshire economy, through aerospace and HALO Kilmarnock, but mainly through the host of companies that we support in the area as well. I still think that we have a connection. We work closely on the Ayrshire growth deal, and we work with the local authorities. We work with partners in the area, and we have a team of people who are dedicated to building those kinds of partnerships and surfacing those kinds of opportunities. That still exists.

Willie Coffey: It is about those bigger investments. I meet constituents every day, including on the weekend, and they will ask me what Scottish Enterprise has done to improve regeneration in the fabric of towns such as Kilmarnock. It is not about high street retail and stuff like that. Plenty of people have come to me and said they have tried to repurpose a long-closed nightclub, for example, and turn it into a small hotel but they have not got a penny's help from anybody. I find that kind of thing difficult to explain. I look at Scottish Enterprise's investments and I think, "Well, why not?"

Is it a question of scale and the particular model that you operate? Is your focus too national or too regional? Should there be another model that allows smaller-scale investment like that, which would provide the kind of assistance that local people would see and readily identify with?

Adrian Gillespie: I think that the remit for that sits within the responsibilities of local authorities and the regional partnerships. Look at the development of regional partnerships in the west of Scotland, for example, where local authorities are working much more closely together. The other local authorities get the benefits of scale by working with the regeneration and economy team in Glasgow City Council.

I do see some of that partnership working, but that is not our expertise. Our expertise is in helping companies to scale up rapidly, particularly internationally. In this country, we need to look at things much more from the macroeconomic perspective. We need more companies that are scaling up and more companies that are trading internationally—that is our remit. I would not want to try to fit a square peg into a round hole, if you see what I mean, but, frankly, our advisers will always give advice to anybody who asks for it; however, it is not where we are the most effective. Our partner VisitScotland is now involved in economic development in the hospitality sector, for example. It is a more complex landscape, but that should bring more people to the party in terms of providing support.

Willie Coffey: South of Scotland Enterprise is coming to talk to us in a wee while. Can you compare and contrast what Scottish Enterprise does and what South of Scotland Enterprise does? What are the main differences? Are they mair locally focused, smaller interventions, whereas yours are more regional and national? Is that the fundamental difference between the two?

Adrian Gillespie: We are both enterprise agencies, but we are very different organisations. We are in 34 locations across the world and we provide support with trade and inward investment for the whole country, not just the Scottish Enterprise region. We also provide other services for the whole country. We are a national economic development agency and an international economic development agency, but we work really effectively with regional partners, local authorities and city regions to deliver on a regional and more local scale. We achieve a good balance, but we are very different organisations.

Our investment function is a big part of what we do, and I would not look to replicate it across the rest of Scotland. We will work with companies in the HIE or South of Scotland Enterprise area that need early-stage risk capital. We work in inward investment—for example, with Sumitomo in the Highlands. Our team in Asia were instrumental in building the relationship and the proposition.

That is how I would characterise it. We are very different organisations with different remits and different skill sets.

Willie Coffey: Can you see where I am coming from? There is the national agency—you—and South of Scotland Enterprise, but we do not have an agency in my part of Ayrshire. We have not had that since Enterprise Ayrshire disappeared. Various other models have replaced it—South of Scotland Enterprise has a funding pot to help it—but the agencies that help places such as Kilmarnock, Ayr and Irvine directly do not have a funding pot. That is where I think there is a gap. Do you recognise that, and is there scope to think about the model and to intervene directly at a local level?

Adrian Gillespie: More and more companies and individuals are now used to accessing advice, support or products in different ways, including online. We use many different channels—for example, to support trade, we use YouTube.

My starting point would always be to ask where Scotland needs to be as an economy and what interventions the Government needs to make to get there. If you compare us with other successful economies, you will see that we need many more companies to be scaling up. Albeit that we had record international results last year, we need to go much further in terms of our export support, and that is where Government support can be really effective.

In a time of scarce resources, I would not want resources to be diverted from the core areas where the economy needs to look different in the future. There is not a lot of funding to go around, so we must channel it into the right places. That is why we have refocused and restructured our operations to make absolutely sure that every penny goes to the biggest opportunities that address the future economy of Scotland.

Willie Coffey: Thanks very much.

Kevin Stewart (Aberdeen Central) (SNP): Good morning. Mr Gillespie, you have said that one of your missions is to accelerate the energy transition. I want to look at proactivity. You are currently in a joint mission with the Scottish

Government to Japan to promote the offshore wind sector and to show the world Scotland's growing expertise and leadership in that sector. That is proactive, and you may want to say more about that. However, do you think that there is enough proactivity from you on the ground in Scotland itself? Many companies in the north-east of Scotland will have to diversify—many are already diversifying—and we have gained a huge amount of skills through oil and gas. Are you proactively ensuring that existing companies can make that transition? What are you doing proactively to ensure that those companies have a future and can retain their workforces?

Adrian Gillespie: The adoption of the mission approach was absolutely about being more proactive in accelerating the energy transition. For many years, we have been supporting companies' transition from oil and gas to renewables and building the kind of infrastructure that is needed for that to happen. We are much more proactive on that front now—through the investments that we have made in Montrose and in Energy Transition Zone in Aberdeen, for example. We are a partner in the innovation investment accelerator zone there. We work with many companies—and I visit many companies—that are involved in the energy transition at the moment, some of which are finding that really challenging. That is where we come in with advice and support, sharing the risk and helping them into new markets.

The international support that we give includes support with inward investment such as from Sumitomo, which I mentioned. There is a very strong pipeline of inward investment, which I am feeling a lot more optimistic about now than I was maybe a few months ago. I can expand on the reasons why. Inward investment is an important part of the mix. In early-stage innovation, we have launched an offshore wind innovation accelerator fund. We take many companies to trade shows—offshore wind trade shows in Germany and Japan, for instance—to help them in the international markets. That is the fastest-growing area of our international trade from a sectoral point of view as well—the expertise that we have developed in offshore wind and hydrogen that we take across the world.

We are taking a proactive approach across a whole range of areas: international support, supporting local companies and developing the infrastructure.

Kevin Stewart: Okay. It will be interesting to see what comes out of the Japan visit.

I am all for international proactivity, but I am also interested in what is happening locally. Let me give you an example. I attended the Offshore Europe conference and did the tour of the halls to see what was going on. Do you think you had enough people at that conference?

Adrian Gillespie: Do I think that we had enough people?

Kevin Stewart: Yes.

Adrian Gillespie: I think that we did, yes. It is an important event for us. If you did not see them at the stand, they might well have been in meetings or meeting investors. I could not tell you the exact numbers, but we had a big team at Offshore Europe.

Kevin Stewart: I am not trying to trap you.

Adrian Gillespie: No—we absolutely did. It is an important event for us.

Kevin Stewart: It is just that, every time I passed, it was very busy. I am not saying that your folk werenae there and that they werenae doing their job. The folk that I seen were pretty active there. That is why I asked whether you had enough folk there, considering the size of that event and the activity that there was at TECA in Aberdeen.

Adrian Gillespie: I know that we had a big team there. It was a really successful event for us. Many of the people who were attending on our behalf would have been manning the stands. There was a rota for manning the stands. There were also meetings that had to take place, and there were sessions going on that we had an interest in or that we were presenting in as well. So, we were deeply involved in that event.

Kevin Stewart: Okay. You have talked already about co-operation with others—Mr Kerr asked about SNIB. I want to ask about co-operation at a local or regional level. You mentioned the energy transition zone in Aberdeen, which you have obviously been co-operating with others on. In relation to the likes of Opportunity North East, how do you feel that co-operation works in terms of growth deals, which have also been mentioned? Are you providing the impetus that is often required to make the necessary changes in energy and in other sectors of business?

Adrian Gillespie: Opportunity North East is a really important partner. We are on the board of Opportunity North East. I was previously on the board of Opportunity North East and I meet with the board regularly. I meet with Sir Ian Wood and the chief executive. Opportunity North East is a very important partner for us. By working in partnership, we have managed to realise investments such as the BioHub and the SeedPod project, which was launched earlier this year. I think that there is an effective partnership going on there.

As I mentioned earlier, Energy Transition Zone is also an important partner, and we have invested in the entrepreneurship hub there. There are some projects in the pipeline as well, which we are working on with ETZ. We have a strong connection there, and it is an important partner for us.

Kevin Stewart: I have a final question. You said that you are using AI to find companies that you have not dealt with before. That is probably a good thing, but I am a bit old-fashioned and think that the best way to find out what is going on out there is actually to be out there. Do you think that Scottish Enterprise listens enough to what is going on out there in order to make the right investments for Scotland's future?

Adrian Gillespie: I think that we do. When I say that we are using AI, I mean that it is an additional tool—it is not instead of anything. That is turning up different kinds of companies that might not attend events or that might not be out at community events that we would be attending. That is an important part of what we do.

The network of companies that we work with introduce us to some of their supply chain and their contacts as well, so I do think that we are out there. That is what we are about. Could we always do with more? Of course we could. What organisation could not do with more resources? However, my job is to make the most effective use of the resources that we have at our disposal.

Kevin Stewart: There are probably a hundred other questions that I could ask, but I will leave it there.

11:00

Michelle Thomson (Falkirk East) (SNP): Good morning, and thank you for joining us. Arguably, my questions follow on from those of Kevin Stewart. I want to explore and to get a general understanding of—for my benefit and, I suspect, for that of businesses and some members of the public—how the triage process is working for the Grangemouth cluster post the closure of the refinery and the Scottish Government's announcement about the provision of £25 million. We will also discuss the £200 million from the United Kingdom Government.

The reason I ask is that I have fairly regular meetings with a range of businesses that approach me. Sometimes they do so as a courtesy to indicate that they are interested, but sometimes they express to me that they are uncertain as to what the right criteria are. I would like to obtain an understanding of how that process is working. In your response, could you also explain your thinking on how you are developing an ecosystem and an infrastructure that will be sustainable for the future? That is a big question.

Adrian Gillespie: In Grangemouth or more broadly?

Michelle Thomson: In Grangemouth specifically. Grangemouth is part of my constituency.

Adrian Gillespie: Sure. If you are talking about working regionally and locally, I think that Grangemouth is an excellent example. We have put a very capable and strong team in place to do the work that we are leading on behalf not only of Scottish Enterprise, but of the Scottish Government, the UK Government and the Office for Investment—a range of partners are involved at Grangemouth. I have had very strong feedback on how the triage process is performing.

You will know that, as part of that process, more than 80 inquiries were received. That number has grown to more than 100. We are working on a range of opportunities. At the moment, we are focusing on short to medium-term opportunities, but we are also working to bring forward and accelerate longer-term opportunities. Project willow is only one of the filters that we use. Some of the short-term opportunities are not a complete fit with project willow, but they are great opportunities in their own right. We are being pragmatic. The process is all about how we can deliver jobs, growth and sustainability to the area.

On top of the investments that we have already made in companies such as Syngenta, Piramal and Celtic Renewables, we have recently invested in and supported the growth of a host of companies in the region. Sustainability is an important part of that. There are huge policy implications for many of the investments that we are talking about, in relation to where the raw materials and the feedstocks will come from. A huge amount of effort is going into that, which involves engaging with agencies across the UK and Scottish Governments. I think that the process is working well.

Another important issue is that of the infrastructure for water treatment, effluent treatment and so on. We must make sure that we have the infrastructure in place. We also have the green freeport. We have a strong collection of assets, and if we can bring them together—the team that we have built is an investment-focused team—and bring investment into the region, I am confident that it has a strong and sustainable future. That will take a lot of work, but I am pleased with how far we have got.

As always, the difficulty with such discussions is that I cannot share details of the opportunities, because they are commercially confidential. I can share them only as they are announced. I would love to be able to give more details, because you might tell me that you are excited about the opportunity that is coming through there, but I am constrained in what I can share.

Michelle Thomson: In some respects, you have made a similar point to the one that I would make. I totally understand what you have outlined—that is exactly what I had envisaged—but the fact that we cannot share such information is a challenge, because it means that companies that have made an application are uncertain. Even though they might present with a viable proposition that has the potential to get through the checkpoint by offering sustainability and delivering jobs at pace, which is obviously a consideration, a common theme that I hear is that although they might think that their proposition is a great idea, they are uncertain. I explain to them, "There's a lot going on in the background—it's a constant juggling act."

Do you have issues with capacity, given the volume of interest? Is that part of the reason for the uncertainty that exists, as well as your having to be coy because of commercial sensitivity? How is your capacity?

Adrian Gillespie: A question that I ask the people in my team all the time—the most recent conversation I had with them was at lunch time on Monday—is, "Do you have enough resource?" They are not telling me that they do not have enough resource. Given that this work is a huge priority for us, if they needed more resource, they would get it.

However, I will take away your point about companies in that pipeline not quite knowing where they stand and I will see whether we can fix that; I think that we should be able to do that pretty quickly.

Michelle Thomson: Okay. Can you outline how your approach to the assigning of the Scottish Government moneys differs from how you understand that the UK Government will eventually—obviously, this has not happened yet—assign any of the £200 million?

Adrian Gillespie: The National Wealth Fund money.

Michelle Thomson: Yes. Can you walk us through how that is working?

Adrian Gillespie: With the Scottish Government funding, we can deploy more in the early stages. We do not require the external leverage that would be required in relation to the national wealth fund money, so we can crack on with things such as feasibility studies and some of the early-stage infrastructure work. Where we have to take the lead on funding, we will try to attract funding in, but some of that work is simply critical and has to happen—for example, the infrastructure work is really important.

The difference in the funding is that the National Wealth Fund money is capital funding that requires leverage, whereas we can deploy the Scottish Government funding on early-stage feasibility work that will build the business case for the National Wealth Fund-related funding to come in alongside funding from other investment partners.

Michelle Thomson: That is what I thought, and I am glad to get that on the record.

We know that, in some of the industries that we are talking about, the amount of risk is heightened, particularly when they are involved in innovative work. To go back to an earlier question from the convener, do you have a different set point with regard to the risk that you are prepared to take with projects that involve higher innovation, or does the level of risk need to conform to the average risk profile across all your sectors?

Adrian Gillespie: I would say that we have a higher appetite for risk, and that we will go further than we would normally do, but that is more to do with the nature of the industry concerned. We would do the same if it was a company in the north-east—we would go further because the risks are greater. I mentioned earlier that capital-intensive, early-stage companies require a lot more support than, say, a software company would require; they need large amounts of funding earlier on. Celtic Renewables is among the companies that we have delivered such support to.

The nature of the economic situation dictates that we need to go further in that geographical area, but it is also a sectoral issue—we will go further with energy transition companies, because the market requires it.

Michelle Thomson: Thank you.

The Convener: Before we close, I would like to ask one more question. The issues surrounding Alexander Dennis are very topical. Just before the summer, we took evidence from trade unions and the business itself, and one of the bits of information that we looked at in our briefing paper was the level of support that Scottish Enterprise had provided.

I have two questions about that. First, we understand that Scottish Enterprise made available a total of £30.5 million to Alexander Dennis over a 10-year period, but your website refers to a figure of £17.6 million, so I would be interested if you could clarify what the balance is made up of.

More importantly, in 2023, according to your website, you provided £4.8 million to Alexander

Dennis. That is some 5 per cent of the £100 million, roughly, that goes out the door. We also know that the vast bulk of the Scottish zero-emission bus challenge fund money ended up being used to buy buses from overseas. Given that you have spent that money, is there a lesson to be learned there about conditionality and taking a joined-up approach so that we ensure that we build indigenous industries, especially in critical areas. I would describe buses as critical infrastructure.

Could you clarify where the balance of £12.9 million, which is the difference between the £30.5 million and the £17.6 million, came from? Critically, are there lessons to be learned in relation to the funding that you have provided in recent years? Could a more strategic and joined-up approach be taken?

Adrian Gillespie: I do not know whether the figure on our website is reflective of the fact that some of the funding in question was awarded some time ago, or of the fact that some of it was part of a submission that we recently received, in which case it might simply not have flown through. The number is £30 million—or, rather, £30.5 million, which is the figure that you mentioned. That is certainly the number that we have been using. We are not trying to hide anything. We have been open about that.

As I know that the company has relayed, it was in a situation in which its market was changing massively. It moved to zero-emission buses, but there were other countries and companies that had a head start in that. We had to support the company to make a very quick transition to producing zero-emission buses. That required substantial amounts of funding. As a company, Alexander Dennis is strategically important to Scotland, so I think that the funding that we offered was entirely appropriate, and it was more than matched by investment from Alexander Dennis and its parent, NFI Group.

A big investment has been made in that company, which is why I am so pleased that, as well as protecting the jobs there, we are investing for the future, because the electric bus market is a growing market. I think that we have done the right things there.

You mentioned the issue of conditionality, which comes up a lot. The conditionality is always the same with every award that we make: “If you don’t deliver, we can claw this back.” We retain that right for many years after an award is made. We retained that right with Alexander Dennis. If things had not gone the way that I am delighted to say that they have, we would have been in a position to get that money back because we had not seen the benefit of it.

The Convener: I accept that. I do not think that anyone is arguing with the fact that the company needed the investment and that you were absolutely right to provide it. The issue is the mismatch. You put in £4.8 million in 2023, and £2 million was provided in the previous four years, but Alexander Dennis did not win a substantial proportion of the £41.7 million that was available under ScotZEB. There is a question to be asked about whether you were investing in the right things or whether the Scottish Government should have applied more conditionality to make sure that your investment made good for the Scottish economy.

Adrian Gillespie: I was not involved in assessing the ScotZEB bids. Alexander Dennis would point to the UK schemes, too. Frankly, the lesson needs to be learned by Governments across the UK that we need to get procurement and our economic priorities all pointing in the right direction. The First Minister has had a lot to say about procurement this week. I think that there are lessons there about how we procure to support our economic priorities.

The Convener: My final comment—to go back to my original line of questioning—is that South of Scotland Enterprise’s annual report provides, on pages 15 and 16, a breakdown of its expenditure and, in particular, a breakdown of how its grants were awarded by sector and according to the pillars. That is useful to have. I totally accept the macro position, but if you are wondering what I was trying to get at, that is the point that I was trying to make.

Adrian Gillespie: Okay.

The Convener: Thank you very much for responding to an extensive range of questions over a prolonged period of time. I thank both our witnesses for their contributions this morning.

We will have a brief suspension to allow for a changeover of witnesses.

11:13

Meeting suspended.

11:18

On resuming—

The Convener: Welcome back. It is a great pleasure to welcome our second panel of the morning. We are joined by representatives of both Highlands and Islands Enterprise and South of Scotland Enterprise. From Highlands and Islands Enterprise, we have Stuart Black, who is the chief executive, along with Sandra Dunbar, who is the director of corporate services. From South of Scotland Enterprise, we have Jane Morrison-

Ross, who is the chief executive, along with Anthony Daye, who is the director of investment, business and entrepreneurship.

I will begin along similar lines to the questions I put to Scottish Enterprise. I am trying to understand the impact and value for money that we get from our enterprise agencies.

It was very useful to get a very clear breakdown of expenditure and what proportion of grants are awarded to business by sector and by key programme in the South of Scotland Enterprise annual report, on pages 15 and 16. My calculation is that your operating expenditure is about 40 per cent of your total outgoings. How do you go about measuring the impacts that you outline and ensuring that you accurately measure that there is a direct linkage between your expenditure and the outcomes? Obviously, as with all the enterprise agencies, the amount of value that you are citing is greater than the expenditure that you are putting in.

Jane Morrison-Ross (South of Scotland Enterprise): It is an excellent question. We have been doing a lot of work over the past two years on performance measurement, looking at not only how we capture traditional performance measures such as gross value added and return of investment but how we can try to capture some of the less traditional and more intangible measures as well. We have made quite a lot of progress there, but it will continue to evolve.

A key aspect of that is related to the team that we have; 80-plus per cent of our team—almost 90 per cent—are client facing and are out working directly with clients, providing what are almost consultancy services. We are not displacing consultancy services because these are clients that could not afford to procure consultants at the moment. However, often team members will work for weeks or months—and in some cases longer, particularly with community projects—to help organisations, businesses and communities develop business cases and so on, and to provide expert input. We started to look at whether we could quantify that as a service above and beyond the core work that the team is doing. That led us to look at other performance measures. We are going to have to measure some of our previous investments—such as in the Langholm initiative, with the community land buyout—in relation to generational return as well as more traditional measures. That is all in process just now.

Anthony Daye (South of Scotland Enterprise): In relation to looking at it as a whole, our staff are an important element of how we deliver services. As Jane Morrison-Ross alluded to, it is very early and we are trying to get some baselines on this but, alongside the grant interventions that we make, we are starting to look at that intangible consultancy approach in terms of staff.

In recent weeks, for example, we have seen staff spend up to 82 hours on a particular project. If you multiply that in terms of their salaries and you look at what the output of the project is going to be, you can see the impact. We feel that, in the longer term, our work on that will be quite a powerful thing to bring forward.

As Jane Morrison-Ross mentioned, we are into our third year of baselining some traditional key performance indicators as well as some more generational or transformational-type key performance indicators. That is coming along well, but we still have lots of work to do on it. In some of the case studies in our annual report, there are some good examples of where staff have done a lot of groundwork that has taken a bit of time, particularly in communities, but where there is a good output in the end.

With the Dalbeattie rocks and wheels project, we contributed about £670,000 out of our own hand, but there is a total of about £7.8 million in investment. That project is going really well. However, there was also a lot of staff input to that, to bring the funding together to make sure that it kept moving along. That is where some of the impacts are the greatest.

The Convener: On page 15 of your annual report, you state that the average increase in turnover from the grant awards that you make is £1.5 million and the average increase in profitability is £521,000. How do you prove that that would not have happened without your support and intervention?

Anthony Daye: That is based on the initial due diligence that we do. In terms of appraisal of any business case for any organisation coming to us and looking for funding, we range from doing a light-touch five-case model to a heavier touch five-case model. Within that, we initially ask the organisation, "What outputs are you going to have? What outcomes are you going to have?" Again, we are very much early on in our work, as our agency is not as old as other agencies. We also look at the outturn. Do the jobs materialise? Do the turnover and profitability materialise? So, we are also monitoring in arrears and keeping up with that.

We have quite a lot of on-going contact with a lot of our clients because of the nature of South of Scotland Enterprise. Clients come back to our client-facing staff to ask for further help. That relationship means that it is very easy to do a check and balance of where they are at.

On the accounts point that you are making, one example would be Johnstons of Elgin. It had an expansion and, in that particular case, it is very easy to demonstrate that, with the money and the help that we have given the company and the work that the company has done, in terms of its input and the money that it has put in, that has led to X amount over, in terms of turnover, and X amount of profitability increase, because it has increased its capacity. Therefore, it is sometimes easier to demonstrate.

In the community projects it is often harder, but that is where the relationship helps us to push out to understand the outcomes of it better. However, it is always a work in progress. I would not say that we are perfect at it but we are always trying to find a way to make sure that we understand what outcomes we have achieved.

The Convener: Thank you. I now have some questions for Highlands and Islands Enterprise. I note that you have not yet published an annual report. Last year, you published your annual report on 9 December, which was five days after the Scottish budget was published. Why is your annual report published so late in the year? It makes it somewhat difficult for us to examine your financial performance if you have not published one.

Stuart Black (Highlands and Islands Enterprise): We have raised that issue with Audit Scotland. It is dependent on the Audit Scotland timetable for the different agencies. SOSE and Scottish Enterprise are done at an earlier phase and we are in a later phase. We have produced some interim results, which we have given to the committee, but our final audited accounts are not signed off until later in the year. We have told Audit Scotland, and it has been raised through our risk and assurance committee—which is our own audit committee—that the timing poses a challenge for your committee.

The Convener: I have been looking at each of the enterprise agencies to try to understand the proportion of their budget that they spend on operational costs versus the proportion that they get out the door. My reading of your accounts is that you spend about £20.8 billion—or, rather, £20.8 million—on staff costs. Sorry, I just added several zeroes to your budget—I would not get too excited.

That is a much lower proportion than the other two agencies. Can you clarify what proportion of your budget goes on grants and direct business support and what proportion goes on management? Am I right in my reading of the £20.8 million figure? That is from last year's annual report.

Stuart Black: It varies from year to year. For last year and this current financial year, we have been very successful at bringing in additional funding, so that changes the ratio. We have had significant additional capital, mostly through the Scottish Government's offshore wind investment programme, and that has made our staff costs to total investment ratio a bit different. It will be even more significant in this financial year.

Sandra Dunbar (Highlands and Islands Enterprise): You are right, convener, that our annual report is not yet published. It will published at the beginning of November. However, last year, our gross expenditure was around £75 million across our capital and revenue. Our staff costs, which are included within that, were around £17 million. Similarly to Anthony Daye's comments about SOSE staff, a large number of our staff are involved in direct delivery of support to our clients, not back-office functions. They are involved in direct delivery, mainly through our area teams, who have a presence across the whole of the Highlands. However, staff are also delivering quite significant expert input into some of the new opportunities, such as some of the offshore wind investment funds, which have included submissions to the Competition and Markets Authority and have involved significant input from our staff. The £75 million is our gross spend and around £17 million of that relates to staff costs.

The Convener: What proportion of that £70-something million goes in direct awards in terms of grants, loans and investment?

Sandra Dunbar: All our capital has gone directly to projects that are delivering direct benefits, so they are not "running the business" costs. It is either going to capital grants to support clients or it is going into investment in business infrastructure to support local economies, for example. In terms of our capital spend, the gross outturn of £42 million would all have gone either to third-party capital investments or our own hand, which is essentially investment in infrastructure that the local economy benefits from.

Stuart Black: If you look at last year's investment of £78.5 million, £20.6 million went to business projects—that is, companies that are expanding or growing—and £7.5 million went to community organisations, which are a very important part of our activity. There was public sector collaboration, because we are working on a lot of partnership projects with local authorities and others, and growth deals in particular, and that was a big chunk of our spend—nearly £45 million. We can break it down by sector and we can break it down by type of business as well.

The Convener: If you were able to provide a summary of that, that would be useful.

I have one last question before I hand over to colleagues. Your written submission states that the average increase in productivity achieved was 54 per cent. That strikes me as very high. I am also curious because you state that the average wage of the supported jobs was £30,600. That is only £1,000 more than the average wage for the whole of Scotland. It strikes me that there is a bit of a mismatch between the claimed productivity increase and the wages for those in projects that you are supporting.

11:30

Stuart Black: On productivity increases, when we are working with the client, we ask for their estimate of the productivity improvement that the investment will make. It is a bit like what Anthony Daye spoke about earlier. That is very much dependent on what the client tells us. We try to sense check that, but I agree that it sounds quite a high figure. In terms of—

The Convener: The figure is high to the point that I feel that it is untrustworthy; businesses achieving a 50 per cent increase in productivity would be world famous.

Stuart Black: We are dealing with lots of small companies and we can make significant interventions that really help to boost their productivity. We are dependent on what the companies tell us. We sense check that and we go back and check.

On the wage point, that result was disappointing for us. The Highlands and Islands, similar to the south of Scotland, is quite a low-wage economy traditionally, so do not be surprised if the average wage is not too different from the Scottish average, because our averages are below the Scottish average. However, we are trying to push up wages all the time, and our board sets us stretching targets on the average wage for jobs that are supported.

Although it was disappointing that we did not make the target last year, we have made it in previous years and we are continuing to push up that threshold. That, in part, is to do with the sector mix that we have. We have a lot of tourism and a lot of food and drink, and traditionally those have been lower-paying sectors. We are increasingly seeing roles in engineering and offshore wind, which is pushing up the average wage. Also, sometimes, the wage rates differ between larger and smaller businesses.

Generally, we have seen an improvement in average wages across our area, which is something that we have been working on for many decades. You are going from the newest agency on the block to the oldest. This year, we are 60 years old—that is, it has been 60 years since the creation of the Highlands and Islands Development Board, which then became HIE.

Lorna Slater: I have one question to put to each of the agencies, to be followed by a more general question to put to both of them.

Following on from what the convener mentioned in relation to HIE's targets, I am interested in the targets that have been presented in the report. I have looked only at the top-level table; I have not dug into the details. I want to give you an opportunity to talk through some of that. In nearly all cases, the targets have been exceeded—sometimes wildly so. I am curious about what is going on there. Is it that targets were not set ambitiously enough? Is it that the situation has changed? On the one hand, wildly exceeding your targets makes it look like you are being very effective, but, on the other, it makes it feel like the targets, when they were set, were not in alignment with the situation.

Stuart Black: With targets, there is always a bit of a mix—we look at what we achieved in the previous year and the board asks us to set stretching targets.

In some instances, as you point out, it looks like we have vastly exceeded them. I will take innovation as an example. We have supported a lot more companies to innovate and have spent a lot of effort to that end. That has been a key area for us. We have a number of staff working with our local area teams across the region who have been targeting innovation. If I take a target that looks like it has been significantly exceeded, some of that might reflect different types of intervention, such as advisory support or lighter-touch signposting to other sources.

One of the targets that I always look at is the number of jobs supported. We are not too far from the target, but we exceeded it. We had a focus on green jobs this year, and we are using the offshore wind investment to target that. We have already mentioned the wage rate. The average was not what we wanted it to be but, importantly, in the inclusive growth areas, which are our target areas and cover about a third of our geography—particularly areas such as the Outer Hebrides, Argyll, Caithness and Sutherland, where there are population issues—we have managed to go above the target.

When we set our targets, there is a bit of a mix of looking backwards at what we achieved in previous years and setting stretching targets. Where we exceed them quite significantly, the board asks us to increase the targets for next year.

Lorna Slater: I turn to the South of Scotland Enterprise. Again looking at the high-level reporting on the targets, I noticed that investment in net zero and carbon accounting has reduced in the past year, if I have read that correctly. I do not know whether you have any thoughts that you want to share on that.

Anthony Daye: I will take this one first, if that is okay. We are at quite an early stage with our performance measurements—I mentioned that we are in our third year of using them. You are right to point that out. We had a good discussion with Audit Scotland about the mix of projects that we have year on year and how that can impact our targets. The targets might be aspirational, but we also believe that we can achieve them. We have to ensure that those are monitored throughout the year and then adjusted if we feel that there will be slippage into the following year. That is probably what you are seeing with some of the measures. We are working hard to make sure that we set targets that are both stretching and realistic, but it is early days for us.

There is wider work going on with HIE and others, and the hope is that using traditional and common metrics across enterprise agencies will make it easier for a committee such as this one to compare and contrast measurements, even on a regional to national basis. I think that that work will be very well received.

However, just now, sometimes there are anomalies, as you noted. Having sat in on our executive team and board meetings, I see the issue as being one that is very much to do with the mix of projects that have come through. We will have a handful of inward investments, and one or two of those will be large scale, which will have a big impact. We have been talking to Audit Scotland about whether to treat those separately, so that the figures are not shown in a different light year on year. That would allow you to see where there is a big anomaly and a big project, and will give a more balanced approach over the years. However, at the same time, there will be a mix of projects, depending on what is happening with the interventions that clients are asking for.

We have been quite successful in meeting other targets. The pathways funding has helped us to achieve some good outcomes. We received that in year. As we have that from the start of this year, we will be better able to see where that could end up and the mix of things that will be in that.

Jane, I do not know whether you want to add to that.

Jane Morrison-Ross: Just briefly, as you have mostly covered it. With regard to some of the projects that would come under those umbrellas—like our work on the land that is adjacent to Chapelcross—any delay in licensing of companies or delay in groundbreaking pushes things out of the financial year. The focus has not changed. The absolute intent and the ethos on natural capital and net zero carbon reduction has not lessened at all; it is simply how we capture and measure that baseline.

As Anthony Daye said, we have had a couple of particularly large inward investments and other projects that have really skewed the data. We have been putting quite a lot of effort into looking at how we get back to a much firmer baseline.

You will see that the opposite is true with natural capital—there has been a huge increase in investment and in the outturns. Again, that is because some of the longer-term projects have come in during this financial year, but two or three years of work have gone into getting them to land. There is phasing, particularly with inward investment, which is interesting. They do not happen quickly; it takes two or three years, and sometimes longer.

Lorna Slater: The two measurements that I am particularly interested in are the investment in net zero opportunities and the carbon reductions supported. You would expect those to correct themselves over time. Your ambitions there have not reduced.

Jane Morrison-Ross: Not remotely. You will note some of the most recent investments that we have made. We have taken a small equity stake in companies such as The Carbon Removers, to anchor them in the south of Scotland.

A strategy and a plan are in place for energy transition, hydrogen, carbon reduction, net zero and so on. Some of that involves the development of the land at Chapelcross and the SOSE-purchased land that is adjacent to Chapelcross. That will start to open up over the next year to 18 months and we will see some of the companies that are already engaged with us, such as Green Cat Hydrogen, land and expand on that zone as well.

Lorna Slater: My question for both agencies is on community wealth building. I see from your targets that both of you have had some success with, for example, supporting social enterprises and community development. What does community wealth building mean to you and what role do you play in that?

Jane Morrison-Ross: We have three pillars: community, economy and environment. We treat those as three legs of the stool, so there is an equal focus on and intent behind them. Many of the most innovative projects that we see come from communities. They are community-driven, and innovation is community-led. Stranraer oyster festival, with its recent success, is an excellent example of that.

We commissioned Biggar Economics back in 2023 to do a study on community wealth building for us. In part, that looked at the community benefit that comes from onshore energy, but the study was broader than that. That was fed into the Scottish Government's approach to community benefit and community wealth building. At this week's regional economic partnership, we looked at how that community wealth building framework can be developed in partnership with our REP.

It is absolutely critical to what we do—it is a major component and a major part of the ethos of the projects that we approach. We have a team that supports enterprising communities, which works hand in hand with communities to look at how we can develop circular economy opportunities, how we can ensure community wealth building is built into investments that we make and, when we are attracting specific inward investors, how community wealth building is part of that, whether that is looking at localised supply chains or specific investments in adjacent communities. That is absolutely core to what we do.

Stuart Black: Community wealth building is in the DNA of our organisation. We have been working with social enterprises for many decades in the Highlands and Islands. Currently, we are working with more than 200 across the region and, last year, we invested around £4 million in 76 community organisations across our area. They are involved in lots of different things from housing to providing business units. I visited some in Tiree recently, which the community had built themselves. Lots of different things to do with community wealth building are going on in our area.

One of the pillars is about the social and productive use of land. We run the Scottish land fund for the whole country, not just for Highlands and Islands. That has been significant in terms of creating a different ownership structure in many parts of the land market in Scotland. We are seeing a lot of communities building on their assets.

We have been tracking some of the island communities, for example, where there have been community buyouts—such as Eigg and Gigha—and the population increases there are really significant. Community wealth building is central to what Highlands and Islands Enterprise is about.

Murdo Fraser: Good morning. I have one set of questions for HIE. There is nobody on the committee who represents the Highlands and Islands, so, as I think that I am the closest thing to a Highlander here, I wanted to ask you a little bit about some of the broader issues you touched on earlier.

Clearly this is a time of great economic opportunity for the Highlands. We see the development of a freeport to Cromarty, renewable energy projects and a growth in tourism. That is all good news, but that development comes with challenges, particularly around infrastructure. There will be a need for more housing and for investment in transport infrastructure. I was talking to SSE recently about the proposed pump storage scheme at Coire Glas in the west Highlands. That will lead to an enormous amount of materials being transported in and out, which will put huge pressure on roads such as the A9 and the A82.

I am interested to get Highlands and Islands Enterprise's perspective on issues such as upgrading the A9—an issue dear to my heart—and, more broadly, what other infrastructure improvements we need if we are going to capitalise on that economic opportunity.

Stuart Black: There is certainly a huge amount of economic opportunity in our region at the moment. We did a piece of research recently—I think that we referred to it in our submission—on transformational opportunities, and we talked about there being £100 billion-worth of investment potential in our geography, which brings some infrastructure challenges.

We are supportive of projects to upgrade the A9, and are also keen to see upgrades in the west, around the A82 and the A83 at the Rest and Be Thankful. Those are significant projects for the Highlands and Islands and for the rest of Scotland because the renewable energy that comes from our region is fundamental to the ability of Scotland and the UK to get to net zero. We think that there is a strong case for investment in the infrastructure of our region. Interestingly, there is potential to use the Caledonian canal for some of the transportation of materials for the Coire Glas development. That is the subject of a project that is being considered by a cross-agency partnership.

On the back of regional and transformational opportunities research, we have worked closely with the Scottish Government across various directorates—housing, Transport Scotland and so on—to look at the region's investment needs. We continue to make the case for that investment because, as you said, infrastructure is fundamental to unlocking the potential of the region. That has been the case for many decades: the upgrading of the A9 in the 1970s was important for the inner Moray Firth area and the wider economy. Those infrastructure improvements are significant.

We are making headway in terms of our work with Transport Scotland on issues such as new ferries—freight ferries are needed for the northern isles, and ferries to the Hebrides always feature prominently in parliamentary discussions. There is definitely a need for transport infrastructure investment.

However, there is also housing demand, which comes on the back of job creation. We are starting to see that translate into new developments, particularly around the inner Moray Firth. Recently, I was at Kishorn, where there is a £50 million transformational project under way that has only a single-track road going to it. We need more housing in that area. There are significant opportunities, but they need investment.

11:45

Murdo Fraser: On the housing issue, I have been talking to SSE, and I believe that it is investing in housing because it realises that there is no point in it creating vacancies if there is nowhere for potential employees to live. I appreciate that a lot of house building goes on in the inner Moray Firth area, but what more can be done to encourage house building in the west Highlands, where a lot of that investment will be going?

Stuart Black: We are doing a lot of work on that already. The Highlands and Islands Regional Economic Partnership has a group, which I chair, that specifically looks at housing. At the moment, quite a significant amount of housing activity is driven by local communities—that relates to Lorna Slater's point about community wealth building. A lot of communities in places such as Applecross and Achiltibuie have acquired land and developed housing themselves. They do not always want to do it, but they are doing it because no one else is. There is a key issue there for public agencies. In the 1970s there was a type of housing for incoming workers called the Scottish specials, but there is nothing equivalent to that at the moment. Particularly for smaller west coast and island communities, a different mechanism is needed, especially in relation to mid-market rental properties. That is the key missing ingredient, I think.

Communities are working. There are some housing associations doing good work, such as Lochalsh & Skye Housing Association and Albyn Housing Association. However, in a lot of places, communities are taking matters into their own hands. Councils are building more as well, but that tends to be social housing for people on waiting lists rather than housing for incoming workers or economically active people.

Gordon MacDonald: Good morning. I want to continue the conversation that you had with Lorna Slater about the targets that you have set, because I am a bit confused.

My question is mainly for Highlands and Islands Enterprise, as I want to know a wee bit more about the review process. You talked about stretch targets. The outturn for the number of new products, processes or services developed last year—2023-24—was 183; your stretch target was 80 to 100; and the forecast outturn for 2024-25 is 263. Similarly, last year, your outturn for community-led projects was 296; your stretch target was 80 to 100; and you are forecast to achieve 271. Further, on the number of green jobs supported, your outturn last year was 271; your stretch target was 70 to 90; and you are forecast to achieve 242.

What is the review process for targets and how realistic are the targets that you are setting yourself?

Stuart Black: The targets are agreed with our board. We put a set of draft targets to the board and we have some debate about them. I mentioned stretch targets, but I am not saying that all of our targets are stretch targets—some of them are possibly less stretchy or elastic than others. However, it is important to consider the situation with regard to the big targets. For example, with regard to capital asset investment, a couple of big projects came in. One of them was a significant investment in the inner east quay at Nigg. That kind of project can make a big difference to the targets—as Jane Morrison-Ross and Anthony Daye said, one or two big projects can skew things.

I take your point regarding some of the numeric targets. We have had a bit of focus on new products and innovation, and the team has obviously vastly exceeded what we set for them. The board scrutinises our targets closely, and we also examine them at the half-year review point. We also get a guidance letter from the Scottish Government every year, which asks us to engage in certain activities.

On the community side, again, we are partly responding to activity that communities themselves are undertaking, so we might have a quieter year followed by a very busy year. It just so happens that we have had two extremely busy years in terms of community activity. Therefore, it is probably better to look at those figures over a three-year period than a one-year period. By the way, that is essentially what we want to do with our budgets, as that would give us much more certainty. The point that I am trying to make is that, even though we set those targets, we need to react to incoming projects, and, sometimes, there is more activity than we forecast.

Gordon MacDonald: The point that I am trying to get at is that you have hit 18 out of your 20 targets. There is a lot of good achievement in HIE's results—no doubt about it—but, to an extent, the data on your targets undermine the story that you are trying to tell, because they make it look as though the targets were set at a very easy level.

Stuart Black: I take your point. We talk to the board and the board makes adjustments to our targets. We also have to look at our budget, as the situation partly relates to resources at the start of the year, and we significantly enhanced our starting budget this year with £19 million of extra money.

We review the targets halfway through the year, but I agree that, if we are exceeding the target by a vast margin, we should ask whether the target was correct. We need to look hard at that.

Gordon MacDonald: I have a couple of questions for SOSE. First, on the number of jobs supported, last year you had 1,706 as your outturn for 2023-24, your target was 1,290, but you only actually achieved 377. What happened?

Anthony Daye: I think that that is a function of what we articulated earlier: it is to do with the shifting in phase of the projects. We were pretty honest earlier in that regard, when we talked about our discussions with Audit Scotland about whether the targets could be adjusted. We are talking to clients and trying to understand where their projects are going to land. I think that that metric has been particularly hit by the shifting in phase of the projects. However if we use a longer-term baseline and look at things over three years—this year will be our third year—we should see things smoothing out, as we definitely have bigger projects coming in.

On your main point about process, we need to understand how our staff run that through the work that we do with clients, how our executive committee scrutinises that, and then how we take that information to the board so that we can collectively say whether adjustments should be made earlier because a project might not land.

We had a helpful discussion on that issue with Audit Scotland this year, and we have learned lessons about what we can do going forward. As I said, the particular issue that you raise is a function of the shifting in phase of the projects.

Gordon MacDonald: So, it is more a timing issue rather than those jobs not being created.

Jane Morrison-Ross: Yes.

Gordon MacDonald: On the number of clients that have increased their digital capabilities, you achieved 32 in the previous financial year. Your target was 28, which seems reasonable, but you actually hit 210. Again, what happened?

Jane Morrison-Ross: As Anthony Daye mentioned previously, we ran the Scottish Government's pilot pathways programme, which involved a huge number of people. We had 300 people going through that programme alone, and, as part of that, there was a real focus on digital. Currently we are running pathways with a focus on AI and deep tech, so we expect to see those numbers swerve as well. We also have somebody in the team who is our digital, AI and deep tech lead. He has been running a series of events across the south of Scotland in tangible uses of digital and AI and so on, which has really bolstered the numbers.

The pathways programme is a strong example of what can be done, because 300 people went through the programme and 100 new businesses started from the pilot. The subsequent iteration of that will see those numbers boost again, which gives us that knock-on challenge about how we capture that without completely skewing the baseline year on year.

Stephen Kerr: I will carry on from Gordon MacDonald's questions about targets. I am a little bit more concerned about the measurables. How exactly do you end up with the numbers that you have? Are they audited? What are they based on? Are they based just on the numbers that people tell you, which you add up, or is there a really gritty audit of what you are getting back for the money that you are spending? I will start with SOSE.

Anthony Daye: There is quite a rigorous process. I think that I mentioned earlier that it starts from that first intervention, when you talk to a client and you try to understand what the nature of the project is going to be. There are lots of tough discussions about having X number of jobs and wanting to increase turnover, then you try to get it down to something more realistic. That is the starting process. Then that is assessed through an investment panel or board, depending on the level of investment.

In terms of the back end of it, we have a performance team—we are quite early on in our journey with that. We are starting to try to understand the impacts and why things have not happened. Why, when a company has said, "We can achieve this," has it not been achieved? Often—we talk to auditors about this—we get a forecast outturn. Some of the figures that we expect to get from clients, which we interrogate, might go into future years.

Stephen Kerr: Are you talking about projects that fit underneath a heading, rather than things that are being completed and delivered and are up and running and sustainable?

Anthony Daye: Some of them are up and running and sustainable.

Stephen Kerr: But not all of them.

Anthony Daye: Not all of them. To go back to Stuart Black's point about multiyear budgets, some of our projects will skip multiple years. It is not unusual for community projects, in particular, to take three or four years. You might see the impact in year 4 rather than year 1, hence the forecast.

Stephen Kerr: Is the reporting mechanism sophisticated enough to capture all that?

Anthony Daye: That is an insightful point. We have just implemented our customer relationship management system, which we are hoping will help us to better grasp the data on a real-time basis.

Stephen Kerr: So you are going to have gates along a journey. When will you be able to report using that? Will it be in this financial year?

Anthony Daye: I would say that it will be into the next financial year, but we will certainly have the start of that this year.

Stephen Kerr: That sounds really interesting to me, because that data is probably more reflective of the reality. That will probably help to get under the skin of these top-line numbers, which are baffling.

Anthony Daye: If I could use an analogy from my background as an accountant, it is a bit like real-time tax reporting. In the past, you had lots of year-end returns to do. When real-time reporting came in, reporting became much more accurate and was almost monthly. I think that we are probably on a similar journey in the sense that the more we can use technology, the more we can use the system.

We mentioned intangibles earlier, which include staff. I am not talking about time-sheeting staff per se, but understanding staff time and spending and capturing that in a positive way so that we can say to a committee like yours, for example, “We have staffing bills of £10 million. That amount of money is going straight towards everyday working with clients.” For example, with the Center Parcs project that we are working on, we know that, this year, two particular staff members have spent about 82 hours on it. The impact of that on how the project is progressing is quite measurable. We would want to do that with smaller projects as well. That is what I think that you are alluding to: how to make sure that we can capture that information. We feel that our investment in that technology will help us get a much more accurate real-time picture of that.

Stephen Kerr: Can we look forward to a deeper-dive analysis of where we are in terms of the delivery against targets? The targets are one thing but I think that we are all obsessed with the outcomes. What do we get for the money?

Jane Morrison-Ross: Yes, essentially.

Anthony Daye: I think that yes is your short answer.

Jane Morrison-Ross: We have a small performance team, but that was why we set it up. We were not happy that we were getting the depth of data that we needed. Part of the work that we have been doing to reshape SOSE has looked at how we leverage our data processing resource and business analysis resource, and how we model the data in a way that is easier to read. As Anthony Daye said, the CRM system that we had when we started did not give us the complexity of data that we needed.

Stephen Kerr: What is your confidence level in the statistics that have been quoted by colleagues?

Jane Morrison-Ross: With regards to what we are reporting on now?

Stephen Kerr: Yes. What is your percentage of confidence in that?

12:00

Jane Morrison-Ross: I am very confident in the data that we are reporting now, but we would want to report out a greater level of complexity and detail in years to come, hence the performance team, the CRM system and the set-up in our discover directorate of mini-regional intelligence hub. We are still having to extrapolate from national data to the south of Scotland region, and that is not good enough. Everything that we are doing is about getting to a more granular level of detail and verifiable data.

Stephen Kerr: Verifiable—that is a good word. Where does HIE stand on that? Do you have the same CRM system?

Stuart Black: We have a system called MyHIE that we have given to SOSE, which has called it MySOSE.

Stephen Kerr: It that your CRM?

Stuart Black: No, it is a client management system. We have a client management system.

Anthony Daye: It is the same technology.

Jane Morrison-Ross: It is the same technology but two years’ worth of customisation.

Stuart Black: That project is a good example of public sector collaboration around IT.

In terms of impact, in any project there are milestones where the client will make a claim against the project. At that point, we can check whether the client has created the number of jobs that was predicted. At the moment, these numbers are based on the client’s predictions, agreed with ourselves, of what the outputs will be.

Stephen Kerr: The numbers against the target are based on predictions.

Stuart Black: They are largely based on what the client is telling us. They might say, "I am investing £100,000 in a new bit of machinery that is going to create or secure 15 or 20 jobs." As the project unfolds, we go back to the client, who made the claims, and we ask whether the project has achieved that number or not. Sometimes the number is higher and sometimes it is lower. That is one way of checking.

The other thing that we do periodically is evaluations of our programmes. We bring in an outside contractor to do some research. They speak to the clients that we have worked with about what the investment has led to. There is a mix of internal work and external work, which we have been doing for a very long time as an agency, and we are pretty confident in the numbers that we produce.

The other thing that I should say is that Audit Scotland always checks the figures. You have had figures from SOSE and SE, and ours are going through the process, but Audit Scotland comes back and says, "Are the assumptions that you have made justifiable?" It is not that I am just giving you numbers that we have—

Stephen Kerr: It sounds like there is going to be a greater degree of verifiability—I think that that is the phrase that Jane Morrison-Ross used—and there will be a greater level of confidence in what we are measuring as outcomes, because there will be more sophistication in how you use data.

Stuart Black: SOSE is a bit different because it is a new organisation. We have been doing it a long time and we are confident in the methodologies that we use. We work very closely with SOSE on things such as targets and outputs, so we have been sharing information with it.

It is a combination of what outcome the client predicts when we make the initial decision to invest, checking through the claims process and then—

Stephen Kerr: It sounds to me like that is more than a single set of numbers.

Stuart Black: There is a lot of activity behind that, that is for sure.

Stephen Kerr: SOSE has quite rightly put a great deal of emphasis on interface—at an in-person, face-to-face level—with the businesses that you are supporting. Given that that activity requires capacity, I am therefore intrigued to understand how exactly a four-day week and a 32-hour working week can possibly mean that you have increased capacity and increased productivity. It sounds to me like that would be a recipe for reducing what you do on a day-to-day basis to support businesses—my colleagues in the south of Scotland get feedback on that. Would you like to respond to that?

Jane Morrison-Ross: I will respond to that one. We were always and we remain a five-days-a-week organisation, even in the flexible working pilot. The pilot is coming to an end and we will return to being a 35-hour-a-week organisation—frankly, for a lot of us, it would be quite nice to do 35 hours a week.

The pilot was audited by the Autonomy Institute, and we asked it to do additional auditing for us. For me and the board, productivity was really key. I wanted to understand from our clients and our customers directly what impact the pilot had had on them—whether they had noticed it and whether it frustrated them. We provided a whole list of client organisations and individual people, including those who we knew would be particularly vocal and were often particularly challenging about SOSE or any enterprise agency generally. The Autonomy Institute data showed that we had no decrease in productivity at all.

Stephen Kerr: So, you can reduce your capacity by spending fewer hours in front of clients.

Jane Morrison-Ross: No—we did not see a drop-off. It was to do with how people managed their working week.

Stephen Kerr: So they worked more intelligently. Will we lose that if we go back to 35 hours?

Jane Morrison-Ross: I do not think so, for a number of reasons. The initial transition into the pilot gave us challenges around communication, internal communication, handover points, cover and so on. That was dealt with swiftly. Understandably, staff morale went through the roof—it really went through the roof. Staff absence rates dropped significantly, and staff absence due to issues with mental health, wellbeing and so on dropped incredibly dramatically.

There was boost in staff morale and people were very passionate about doing their jobs very effectively, because they understood that the success or failure of the pilot would stand on what our customers said. If our customers said, "We are not happy, because there has been a decrease and I cannot get hold of the person I need," frankly, the board would have held my feet to the fire for quite a long time. We did not see that.

What we are going to do post pilot, which our board has agreed, is maintain a flexible working approach. To be fair, pre pilot, we had around 30 per cent of staff on flexible working patterns because of caring duties or something else. It was not a massive change for us.

We have also been looking at modelling and capturing data around how people used that additional time. What impact did it have on the local economy? Were people doing courses, updating their skills and spending money in their local area? That data has been positive, too.

Stephen Kerr: I am conscious of time, convener, but I will ask another question, if you will allow me. I have not really got into the issue I wanted to talk about.

The Convener: As long as it is quick, Stephen.

Stephen Kerr: I get the message.

This is a question for HIE on a point of concern. As we see economic development in the Highlands, the question is: do you have concerns, or should we have concerns, about the capacity of the smaller island councils to handle transformational business opportunities, particularly when it comes to planning? Is that a concern? Is there a risk element to the fact that they will get chocka and will not be able to process applications in a timely way, in order to capitalise on the opportunities?

Stuart Black: I have every confidence in the island councils that we work with. They are strong partners of ours.

Planning capacity is a challenge right across the country, not just for small island councils. I think that there is some work being done to pool planning expertise resources in Scotland, because it is a challenge nationally, not just for small islands.

Stephen Kerr: So it is a general blockage issue.

Stuart Black: I think that there is a general challenge around capacity of planning departments. I used to run one in Highland Council and I know that there are challenges around the availability of planning professionals, for example, because many of them have gone to work for developers who are now active in renewables.

Stephen Kerr: Poachers and gamekeepers and all that.

Stuart Black: We work closely with Shetland Islands Council, Comhairle nan Eilean Siar and Orkney Islands Council, which are very strong councils.

Stephen Kerr: However, you do have a general concern that there is a potential strategic issue.

Stuart Black: I think that it is a strategic issue for Scotland.

Stephen Kerr: For Scotland—right.

The Convener: I think that we could do a whole inquiry on that. We better stop there.

Stephen Kerr: Kevin Stewart said earlier that he could ask a hundred questions, and I would agree with him.

Willie Coffey: I do not have a hundred questions, convener; I have only one or two, which I hope are relevant. I will direct them to our witnesses from South of Scotland Enterprise, but I also welcome comments from those from Highlands and Islands Enterprise.

You might have heard that, at our earlier session, I asked our Scottish Enterprise witnesses about that agency's focus. They said that its modal focus is on national and regional work rather than local work. Will you compare and contrast that approach with what South of Scotland Enterprise does? What advantages have you brought to the table, which would not have existed had you been relying on Scottish Enterprise interventions in your area? Jane Morrison-Ross, perhaps you could give us a couple of examples of what your agency has managed to achieve because it exists as a regional enterprise agency.

Jane Morrison-Ross: I am afraid that we missed the earlier evidence session, because we were stuck outside during the fire drill.

The research that was undertaken before SOSE existed, when the South of Scotland Economic Partnership was formed, validated the need for direct, regional, place-based intervention. HIE has been around for 60 years now; in contrast, the south of Scotland did not previously have embedded, localised support. Since we have been in place we have seen quite a dramatic upturn. Over the past five years, £250 million-worth of investment and thousands of new jobs and other opportunities have come in. A good example of those is that, in the past 18 months to two years, there has been a 400 per cent increase in inward investment opportunities. That is directly down to the approach that we have taken through the Invest in South of Scotland partnership, including through its website.

SOSE is very much a catalyst for the adoption of a collaborative approach on housing and infrastructure. We touched on housing matters earlier. About six weeks ago, a housing action plan for the south of Scotland was launched, with developers and builders as partners. Both local councils are working on that, and Dumfries and Galloway Council has just launched a new £200 million project.

Another key point is that SOSE is an organisation that bridges the whole of the south of Scotland. The collaboration between Scottish Borders Council and Dumfries and Galloway Council is both effective and interesting, and it brings a lot of focus on the south of Scotland region. [*Interruption*.]

Lorna Slater: I apologise for my phone ringing.

The Convener: I think that that is the first time that the Sex Pistols have been heard at committee. [*Laughter*.]

Jane Morrison-Ross: We are seeing inward investment opportunities and companies coming to the south—and staying there—because there are people on the ground who will work with them directly. A good case in point is The Carbon Removers. It plans to stay in the south of Scotland because of the support that it had throughout its journey, from starting as Dry Ice Scotland to being a company that, in its last funding round alone, raised around £125 million. That is the direct impact of our adopting approach whereby we take companies at an early or small stage and support them all the way through. Very much the same is true of communities.

I am not sure whether Anthony Daye wants to add anything.

Anthony Daye: I could add loads, but I will try to be succinct given the shortage of time. The idea of clusters is really interesting. We now have two or three company clusters, but previously the number of jobs and opportunities that they could bring was not so evident.

We did an exercise to triage about 77 inward investment opportunities, because we wanted to understand where we could best place our scarce staff resource to ensure that we could get the best impact. We brought the number of opportunities down to 17. However, they do not represent 17 individual inward investors; each is either an individual investor or a cluster of companies. That is where we focus our strategic opportunities alongside the SME support that we have successfully provided over the past five years. That approach allows us to help smaller companies to benefit from bigger inward investors coming in.

In terms of place making, including simply bringing a company in, we are seeing a couple of those inward investors planning to invest in housing, too, which is positive. Although other work is being done though the housing action plan that Jane Morrison-Ross alluded to, we are also seeing companies addressing that aspect directly. We aim to ensure that synergies can flow through right to the bottom of the communities that we work and live in. That will mean that those places can grow, prosper and become bigger. People will want to stay there because of the infrastructure and housing, but more importantly because there are jobs there.

Willie Coffey: With your hand on your heart, though, are you able to say that none of that could have happened if SOSE had not been there? You have access to the growth deal money and Scottish Enterprise has not gone away; it is still there serving the whole of Scotland. I am trying to get a handle on the regional element of the picture. What is unique and would have happened only because you were there?

12:15

Jane Morrison-Ross: Some of those things would have happened, but perhaps over a much longer period of time; others would not have happened at all.

As Anthony Daye said, we take a mini-circular economy approach. When we work with inward investors, we look for pull-through, localised supply chains and other opportunities for SMEs. Around 100 new business start-ups came from our pathways pilot alone. In the Borders we run Business Gateway for Scottish Borders Council, and the results there have been exemplary.

There is something very important about being embedded in a place and understanding that. An example that we have given previously is that, when I first took up my post, my conversations with the Scottish Government about the focus for investment said that the south of Scotland was to be earmarked for food and drink, and that future strategy would also focus on food and drink; no other sectors were being considered or planned. The food and drink sector is an incredibly important one for us—we work with companies there and we have dedicated resources to it—but it is not remotely the only one that we work in.

We now have two hydrogen growth spots in the south of Scotland that would not have been there had we not annoyed everybody for quite a long time until we got them. However, energy transition, developing the site at Chapelcross, and the work being on hydrogen would not have happened without our working very hard to put the case for them to Scottish Government or, through our partners, to the UK Government. We are not allowed to lobby, but we are allowed to try to influence, which has become a critical part of what SOSE does. That is why we have the framework for community wealth building, the work on hydrogen and the energy transition plans. SOSE is very much a catalyst for many significant projects, from the Eyemouth harbour masterplan—another fantastic example of community-driven innovation—through to the investment in Stranraer.

Willie Coffey: Stuart Black, HIE has been around for a long time. What is the contrast between what Scottish Enterprise does, as a national agency, and the added value that you can apply to your part of Scotland?

Stuart Black: It is important that we have locally embedded regional agencies in rural areas such as ours. We work with a great number of small and medium-sized enterprises. Given the differences in its budgets and priorities, Scottish Enterprise does not tend to work with as many of those. Last year, we spent £14 million with micro-enterprises, which are companies that employ fewer than five people. Lots of investment is taking place in small projects, but they can make a huge difference in a place such as Barra. In recent years, one of our big projects was on Fair Isle, which lies between Orkney and Shetland and is about as remote as you can get in the UK. We invested in the bird observatory there. I do not think that a Government agency anywhere in the UK would have looked at that project in quite the same way as we did.

Therefore, both regional and local approaches are important. Across our geographical area, we have eight area teams who live and work in those communities, so our agency's people are very accessible. One of the challenges for SE is creating regional accessibility in other parts of Scotland. That is why SOSE was set up.

However, having said that, we are also delivering national-scale projects. For example, our project with Sumitomo is a UK-level one involving £350 million-worth of investment. Similar numbers are involved in the project at Ardersier, where we have been working with Haventus. Therefore, we are making nationally significant investments.

Having a regional presence makes a huge difference, though. For example, we have a new partnership with Great British Energy. I think that we are the first agency in Scotland to do that, so we are playing a significant role in the UK's energy transition programme. Our agency's strength is that we can deal with micro-enterprises in difficult geographical areas such as the Outer Hebrides and Argyll—and in areas north of the mainland such as Shetland and Orkney—but also with the big stuff that is happening around the inner Moray Firth, Wester Ross, Shetland, and Scapa in Orkney. It is quite an interesting mix.

For us, the work of Scottish Development International and Scottish Enterprise adds value. The Sumitomo project involved partnership working between ourselves and SDI in the far east. There are definitely things that the national agency can bring to the party. However, in our geography, we are leading on that project.

Willie Coffey: My final question goes to our witnesses from SOSE. I am a great fan of our railways. I take a keen interest in the Kilmarnock to Dumfries line, in the middle of which lies Thornhill. Is SOSE still actively pursuing and promoting the reopening of Thornhill railway station? When I look around Scotland I see a lot of stations reopening. However, most of that is happening in the east and the north and very little of it in the south and the west. Thornhill is slap-bang in the middle of SOSE's territory in the south of Scotland. Is the reopening of its station a project that you are still keen to support and promote?

Jane Morrison-Ross: Last week, down in Tweedbank, we celebrated 10 years since the reopening of the Borders railway line and also the confirmation of funding for the feasibility study for its extension. Everybody can see the transformative impact to that part of the Borders of the line being reopened. There is still an active stakeholder group in Thornhill and a number of them in other villages across that part of the region. We will work with them all to support them in any way, shape or form that we are able to. We absolutely recognise that transport infrastructure is a key challenge for us. We work in a remote and rural region that has only four settlements of more than 10,000 people, so the infrastructure aspect is critical. I would love to see the benefits of the railway coming back to Dumfries and Galloway, too. I live up a hill outside Sanquhar. I can get a train to Glasgow from the town, but I would love to be able to get one to Edinburgh as well.

I am not sure whether Anthony Daye would like to come in on that.

Anthony Daye: No, thank you.

Willie Coffey: If you are in Thornhill you cannot catch the train, because the line runs straight through the town, does it not?

Jane Morrison-Ross: Yes.

Willie Coffey: Are you actively providing support for reopening stations? Is that a priority for you?

Anthony Daye: We would need to check whether there is any monetary support, but our community teams will be aware of what is happening. Perhaps we could come back to the committee on that specific point, convener.

Willie Coffey: I appreciate all your answers. Thank you.

Kevin Stewart: Good morning. I asked questions of the earlier panellists on collaboration, co-operation and cohesion with other bodies such as the Scottish National Investment Bank. You have mentioned councils in the answers that you have given thus far. How have you been involved with growth deals? How are you making sure that we get the biggest bang for our buck when it comes to economic growth in your areas?

Jane Morrison-Ross: We are probably in a slightly different position with growth deals—

Kevin Stewart: A wee bit.

Jane Morrison-Ross: SOSE did not exist when the Edinburgh and south-east Scotland city region growth deal and the Borderlands growth deal were set up, so we were not involved in shaping the projects that are now in process and in programme. We work really closely with both groups that run those, but it would have been opportune if we had been there at the beginning and able to feed into the type of project that would have really benefited the south of Scotland.

We run the mountain bike innovation centre project, which is a good project that is now moving forward at pace, in partnership with Edinburgh Napier University. However, we would have benefited from being able to look more directly at the type of project that would benefit the region and drive economic growth.

We work with national partners. Stuart Black mentioned SDI, with which we have a great working relationship. We work with the councils and with a load of national organisations and bodies to try to bring benefit to the south. We have a new partnership with the National Robotarium and a number of others that we will be announcing as part of innovation week Scotland. However, we are not as embedded in the growth deals in the south as perhaps we could have been.

Is that fair, Anthony?

Anthony Daye: There is also an active conversation based on a request from a previous committee that we are trying to take forward for future iterations. I am involved in that conversation about how we get the kind of influence that Jane Morrison-Ross is alluding to. For example, it is about whether we need to have a seat on that organisation. From my point of view, there have definitely been no closed doors—people are very open to that and recognise that we were set up after things had started, but that does not mean that that has to be the situation forever. That is really positive. It reflects the working relationship that we have with councils and with deal colleagues. I do not see the situation as an impediment just now, and I would see it as an opportunity going forward.

Kevin Stewart: It does not have to involve a seat at the table, of course. It is just about co-operation in expanding business in the south of Scotland.

Jane Morrison-Ross: Absolutely.

Kevin Stewart: Stuart, can you answer from HIE's point of view?

Stuart Black: We have been heavily involved in all the growth deals in our region. There are four growth deals that we are very involved with. The longest-running one is the Inverness and Highland city region deal, which I was involved in when I was at Highland Council. Believe it or not, that is about to come to an end, as the 10-year period is almost over. We have also been involved with the islands growth deal and the Moray growth deal, and there is a relatively new one for Argyll.

We have various partnership projects in all those deals. For some, we are in the lead and for some we are a partner funder. A good example is Inverness castle, which is about to open as a transformed visitor attraction. We have been a small but significant funder in that project, which will be a huge transformational project for Inverness and the wider area. We are also heavily involved in the Orkney research and innovation campus—ORIC—project.

There are no growth deals in our area that we are not involved with. Arran and the Cumbraes are covered by the Ayrshire growth deal. We have slightly less involvement in that one but, if there are partnership projects, we are able to fund them.

Growth deals are really important. With many of the output measures in our activity—including some that you were being critical of around innovation—we have had growth deal funds, and my concern is that that funding is coming to an end. Those are revenue-funded projects and we are not seeing that going forward. I have concerns about growth deals. Particularly for the Highland one, we need to see what is coming next.

Kevin Stewart: None of you has mentioned the Scottish National Investment Bank. What are your dealings with it?

Anthony Daye: At an operational level, we meet with it, and Jane Morrison-Ross and our chair also meet with it. I have also been on the business investment group, which includes HIE, ourselves, SE and the team in Government, and which has been a good introduction to considering how we best utilise financial transactions or the investment facilities that we have across Scotland so that we are not duplicating or stepping on one another's feet. There is a very open dialogue on what we can and cannot do.

On top of that SNIB has invested in companies in the south of Scotland. Our approach is active. Jane Morrison-Ross will know that we are not shy about asking and knocking on its door. There is an open and on-going relationship to try to ensure that, if we have an opportunity in the south of Scotland, SNIB is brought in at the right time. In the past, if SNIB came in too early and a company or organisation was not ready or prepared, the opportunity was lost. To go back to the point about what difference SOSE has made, we are making sure that our companies are ready to accept the help that is out there—because there is help out there.

Stuart Black: We are actively involved with SNIB. I thought that the question was more on growth deals, but I could reel off numerous projects of which we are a co-funder. A good example is Haventus at Ardersier, where SNIB is also involved. At the much smaller end of the scale, SNIB is involved in a housing project in Shetland, which is really positive. We discussed the issue of rural and island housing earlier.

We have a lot of joint work with SNIB. It has actually taken a number of our staff, who now work for it.

Kevin Stewart: The Scottish Enterprise witnesses mentioned that it is using artificial intelligence to find companies that it has not worked with thus far. I asked them about proactivity. How are you being proactive and not just dealing with the companies who might be your usual suspects?

Jane Morrison-Ross: That comes back to the question on place and being embedded in it. I and all of my senior leadership team, as well as the rest of the team members in SOSE, have relationship management responsibilities for a certain number of companies. As part of that, we work across the region. We are out meeting companies a lot, but we also hold sessions where companies can come and meet us. We hold events such as the AI readiness sessions and we have the Business Gateway connections. We are always finding new companies and new opportunities, as well as being the catalyst for starting them.

Because of the size of the region that we cover, and because we have people from Eyemouth to Stranraer and we are quite visible, people come to us. I work out of all of the locations as often as I can. We get emails—I get emails—and we have a really good network. Because of the size, that is possible. Word of mouth is a surprisingly important part of what we do.

You will know that, roughly once a year, our chair and I take a roadshow across the south of Scotland. For some reason, it is quite often in the middle of winter, which is fun. Last year, we covered 27 communities in the south of Scotland, and not the ones that you would necessarily expect. We try to cover new ones every time. We have direct approaches through sessions such as that as well. It is a mixture of ways.

12:30

Stuart Black: We are using AI internally. We have used Copilot, for example. Importantly, we are using it to help clients, because a lot of small companies are concerned or unsure about AI, so we have a £3.4 million programme to enable companies to be ready for it. We have also trained a lot of our staff, so that they have awareness of it. We are not using it so much to find new clients, because we have open calls for projects, such as our green grant fund, to which any company can apply. We have not used it in that way.

We have a pretty good knowledge of our company base. The situation is different for Scottish Enterprise, because it covers a much more diverse and bigger geography—it is a bigger population, anyway. We are not using AI in that way, but we are trying to use it. Importantly, we are trying to get our clients ready to respond and to use it, because there is a lot of uncertainty about the use of AI, particularly around cybersecurity, for example.

Kevin Stewart: I have one final question. Housing has been mentioned and, as the panel is aware, I was the housing minister for five years. My question is mainly for Stuart Black. A lot of investment has gone into housing over the past number of years. One of my frustrations has been that development is often held up because, although folk say that they want more housing, when planning decisions are made, developments are often thrown out in areas that are in desperate need of housing.

How do we all educate local decision makers—who are often the ones who shout about more housing and then vote against it—that this is the right thing to do for the economy of our place?

Stuart Black: That is an excellent question. We could probably have a whole hour on it. I used to be a planning director, and I know about some of the pressures that local members come under at planning committees when planning applications come in front of them. Objections to housing often come from a certain part of the community that is not so interested in the younger population and the working population, if I can put it like that. In a lot of communities, we need to think about where the future workforce will live. Where will the people who are going to look after us in older age live?

The challenge is that we need to get our development plans much more effective in terms of allocating land for housing and then, once developments are in the development plan, the presumption should be that they will happen. The challenge now is that, with a lot of land that is in development plans, you get objections. There has to be a democratic process but, particularly in areas such as ours, we must also consider the huge employment demand and the need for more housing. We cannot just have committees turning down applications because a certain group of residents are very much against them.

Kevin Stewart: You have covered a lot of ground, but the key element—and the message from your agencies, I would imagine—is that, in order for places to thrive and for young folk to continue to live and work in certain places, we have to take cognisance of their needs and not necessarily the needs of folks who have maybe given up work, who like their place as it is and who dinna really want any change. Quite frankly, places will not thrive or survive if we do not get this right. Would that be fair?

Stuart Black: I 100 per cent agree with you.

Jane Morrison-Ross: I agree. The other challenge, certainly for us in the south of Scotland, is that we need all kinds of housing. We work closely and collaborate with registered social landlords right across the south and with the councils on the action plan. About a year ago, we launched the first pilot outside the central belt of Homes for Good, which is a charity that works in the private rented sector, where we have a massive shortage. The charity's ethos is that everybody deserves a beautiful place to live. It is a very unusual model, and a very ethical one. It is in Dumfries at the moment, and we are looking at expanding it into the Borders.

The issue of second homes is also a challenge. I know that that will be true in parts of the Highlands and Islands as well. We have some very picturesque villages in Dumfries and Galloway where the locals talk about the dark windows in winter, with half or two thirds of the properties in the village have no lights on. Again, it is about finding ways to work with local communities to challenge that and to establish where the real demands are, and then to work with them to meet those demands.

Yes, we need more young people and we need more housing. We also need more housing to satisfy the companies that are coming into the region. That is a prime area of focus for us.

The Convener: Thank you very much. I thank the witnesses on our second panel this morning for all their contributions. With that, I bring the public session to a close.

12:36

Meeting continued in private until 12:51.

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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

All documents are available on
the Scottish Parliament website at:

www.parliament.scot

Information on non-endorsed print suppliers
is available here:

www.parliament.scot/documents

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000
Textphone: 0800 092 7100
Email: sp.info@parliament.scot

The Scottish Parliament
Pàrlamaid na h-Alba