

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 28 November 2007

Session 3

£5.00

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ECONOMY, ENERGY AND TOURISM COMMITTEE

9th Meeting 2007, Session 3

CONVENER

*Tavish Scott (Shetland) (LD)

DEPUTY CONVENER

*Brian Adam (Aberdeen North) (SNP)

COMMITTEE MEMBERS

*Gavin Brown (Lothians) (Con)
*Christopher Harvie (Mid Scotland and Fife) (SNP)
*Marilyn Livingstone (Kirkcaldy) (Lab)
*Lewis Macdonald (Aberdeen Central) (Lab)
*Dave Thompson (Highlands and Islands) (SNP)
David Whitton (Strathkelvin and Bearsden) (Lab)

COMMITTEE SUBSTITUTES

Nigel Don (North East Scotland) (SNP)
*George Foulkes (Lothians) (Lab)
Alex Johnstone (North East Scotland) (Con)
Liam McArthur (Orkney) (LD)

*attended

THE FOLLOWING ALSO ATTENDED:

Peter Peacock (Highlands and Islands) (Lab)

THE FOLLOWING GAVE EVIDENCE:

Sandy Brady (Highlands and Islands Enterprise)
Sandy Cumming (Highlands and Islands Enterprise)
Andrew Downie (Scottish Enterprise)
Forbes Duthie (Highlands and Islands Enterprise)
James Fowlie (Convention of Scottish Local Authorities)
Riddell Graham (VisitScotland)
Hugh Hall (Scottish Enterprise)
Councillor Alison Hay (Convention of Scottish Local Authorities)
Barbara Lindsay (Convention of Scottish Local Authorities)
Jack Perry (Scottish Enterprise)
Philip Riddle (VisitScotland)
David Valentine (Society of Local Authority Chief Executives and Senior Managers
and Scottish Local Authorities Economic Development Group)

CLERK TO THE COMMITTEE

Stephen Imrie

SENIOR ASSISTANT CLERK

Katy Orr

ASSISTANT CLERK

Gail Grant

LOCATION

Committee Room 4

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 28 November 2007

[THE CONVENER *opened the meeting at 09:32*]

Budget Process 2008-09

The Convener (Tavish Scott): Good morning and welcome to the ninth meeting in session 3 of the Economy, Energy and Tourism Committee. This morning, we begin our interrogation of the budget process 2008-09 and the spending review period in general. We will take evidence from a series of organisations on the significant areas of budget expenditure for which we have parliamentary responsibility.

I am pleased to welcome Scottish Enterprise's chief executive, Jack Perry, its chief financial officer, Hugh Hall, and the finance director of group operations, Andrew Downie. Mr Perry might want to make a brief opening statement; if not, we will fire off with questions.

Jack Perry (Scottish Enterprise): I will make a brief statement. We welcome the opportunity to discuss where we are with our plans.

It is just two weeks since the Scottish Government made its spending review statement, so we are still working through the detail of what it means for Scottish Enterprise. We reiterate what we said in our written submission: we would welcome the opportunity to come back to the committee to discuss our budget in full, once it has been developed.

As members will be aware, major changes are being made in how Scottish Enterprise will operate in future. Following the Government's recent review of the enterprise networks, from 1 April we will be repositioned as Scotland's enterprise, innovation and investment agency. Our strategy will be determined by the needs and demands of our key industries, and our customers will be businesses that have the potential to make a disproportionate impact on the Scottish economy. Our focus will be on delivering effective support to encourage those businesses to grow and on helping to improve the environment in which they operate. We are in the process of implementing major changes across the organisation to ensure that we deliver that service as efficiently and as effectively as we can.

It is undoubtedly a challenging time for our employees, for whom a significant element of uncertainty has been created, which we are trying

to clear up as quickly as we can. Our approach to managing change has been to engage with our staff as often as we have been able to and to get our own people to lead the implementation of the changes that we have embarked on making. More than 100 people from across our organisation are participating in work on subjects ranging from how to effect a smooth transfer of people and activities to the new skills body, to how to re-energise our relationship with local government and build on the best practices that have been adopted by our local enterprise companies. The outcome of those work streams will have an impact on our final budget position, particularly on those areas that are concerned with transferring activities into and out of Scottish Enterprise.

Generally speaking, the financial settlement that we face over the next three years is extremely challenging, but that is hardly unique to us. It will require us to prioritise what we do, which might result in our taking some unpopular decisions, but we aim to squeeze as much value as we can from the resources that we have, through realising efficiencies of up to £10 million annually. That will entail a significant reduction in staff numbers but, in line with Government policy, we have given our workforce the guarantee that there will be no compulsory redundancies.

We will use our resources to leverage in as much private sector investment as we can—in our submission we have given examples of the opportunities that exist—and we will work as collaboratively as we can with public sector partners to ensure that we do not duplicate our effort and that our investment is better aligned across the Scottish public sector. We seek better alignment with the investment of VisitScotland and Highlands and Islands Enterprise, in particular, but also with that of bodies such as Transport Scotland and Scottish Water.

Last year, we delivered a balanced budget and this year we are on track to do the same. However, that should not mask the fact that there are issues to do with annuality and resource accounting that make the budget extremely difficult for us as an investment agency to manage. Those issues were flagged up to your predecessor committee, which accepted what we said.

More than ever, we want to be forward thinking and creative in our work, and to be encouraged to take measured risks in supporting economic growth in Scotland, but we operate in a financial environment that militates against that. Any support that the committee can give us in helping to get the relevant changes made at national level would be most welcome.

We welcome the clarity of purpose that we have been given and we are working speedily to

implement change and realise the planned efficiencies. We remain excited by the opportunity that is ahead of us and optimistic about the future. We welcome your questions.

The Convener: In relation to clarity of purpose, I guess that you knew what was going to happen to the enterprise network across Scotland in the third week of September. What happened between the third week of September and 14 November, when the Cabinet Secretary for Finance and Sustainable Growth announced his budget?

Jack Perry: I am not sure that I entirely follow your question.

The Convener: It strikes me that that was quite a lengthy period. I take your point that you have had only two weeks to react to the budget statement, but you have had rather longer than that to deal with the changes to the network.

Jack Perry: Absolutely. We have done preliminary work on how to effect those changes—it is hard to fire the starting gun until there is absolute certainty on the reform of the network. We are quite well advanced with many of the reforms to the local enterprise company structure, the reform of our industry groups and the reform of the services that we offer.

The Convener: When can the committee expect to see the detail of the changes that will be made to the network as a result of the strategy announcement at the end of September?

Jack Perry: We will make announcements on changes that affect our staff by 21 December. By January, we should be well advanced with our draft operating plan and the detailed budget for the coming year.

The Convener: That will be after we have finished our budget consideration.

Jack Perry: Regrettably so, but some major uncertainties exist—not least, the transfer values that I mentioned. We will transfer 1,200 staff. As well as the value of all those activities that are related just to skills, there is the matter of the business gateway. Those issues all have to be negotiated and finally agreed with the successor bodies.

The Convener: You do not yet know how much of your budget will be taken away as a result of the setting up of the new skills agency and the transfer of responsibility to local authorities.

Jack Perry: Those figures all have to be agreed.

The Convener: Will they be agreed by Christmas? What is the expectation?

Jack Perry: To an extent, that is not necessarily in our gift. Hugh Hall might have a better feel for when that is likely to happen.

Hugh Hall (Scottish Enterprise): It would be ideal if it happened by Christmas, but I do not want to put colleagues in other businesses under pressure. It is not in our gift when those negotiations conclude, although we have had some preliminary discussions with the Scottish Government about what the size of the transfer might be. However, we are involved in some detailed discussions on a few imponderables with regard to local regeneration and physical business infrastructure. For example, where does the responsibility of urban regeneration companies begin and end? Ideally, if we could get some clarity by Christmas, we would be able to firm up our budget and put a final draft business plan and resource allocation to our board at the end of January.

The Convener: But the Government has decided to set up a skills agency. I presume that it has told you how much it wants to put into that.

Jack Perry: The Government has told us which programmes should be transferred, although certain areas have still to be finalised. We will remain responsible for workforce development in our current managed companies, but we and the new skills body still have to agree finally on the precise definition of what that means. Although we know that Careers Scotland's activities and the four major national skills programmes will certainly transfer, and although we have a good idea of what their value should be, matters have still to be agreed.

Hugh Hall: We at Scottish Enterprise can say with some certainty that, with our fairly good grasp of the details, we would be able to—and would like to—agree the figures and clear everything by Christmas. The question is whether the embryonic skills agency and the other bodies will be in a similar position.

The Convener: Thank you. That was very helpful.

Jack Perry: One important point that I should clarify is that, in the Scottish Government's budget, Scottish Enterprise's budget covered all our existing activities, including those that will continue under us and those that will be discontinued. As a result, when we determine our budget allocations, we need to think about our future budget as if everything in it is continuing. That issue will need to be discussed with the new skills body.

The Convener: I quite understand.

Brian Adam (Aberdeen North) (SNP): Although the fact that this spending round is very tight has had particular consequences, the approach that is being taken fits in with the Government's policy position that Scottish Enterprise should co-locate some of its work with

other bodies. That is bound to have an implication for your current estate. In addition, some written submissions that we have received suggest that Scottish Enterprise will have to make efficiencies from its estate. What are your assets worth and what is your return on them? Do you plan to change anything in that respect? How do you see your needs with regard to having a place to park your staff and what are the implications for the budget?

Jack Perry: We have already agreed—indeed, we have welcomed the opportunity—to co-locate, where it is sensible to do so, with council economic development offices and/or VisitScotland. As you rightly point out, such moves are subject to property availability and existing property commitments. We also have a programme of redeploying staff from our headquarters to operational offices as much as we possibly can.

Brian Adam: Have you made any progress on co-location?

Jack Perry: We have had very initial discussions. However, at this stage, the huge programme of reforms on which we are embarking relates to Scottish Enterprise's network and activities. Once we understand the operational models, we will examine how we might co-locate with other bodies.

Hugh Hall: There will be some scope to make efficiencies from co-location, but its biggest benefit is better connectivity and working arrangements between the various agencies. I do not think that it will generate significant savings per se. Instead, we will make savings through the enterprise networks review and through removing the governance of 12 local enterprise companies. For example, we will have to prepare only one set of financial statements, rather than 13. As we achieve better connectivity across our staff, we will be able to streamline the senior management structures and remove some corporate functions. That is where the real financial benefits will come from.

Brian Adam: I presume that you also have assets and that, for example, you own property on which you get a return. Some of the material that we have seen has implied that you might want to dispose of that property or seek a better rate of return on it. If the intention is to get a better rate of return—and the rates for leasing property increase to maximise your returns—what impact will that have on developing business and new business start-ups?

09:45

Andrew Downie (Scottish Enterprise): We own assets, and we supplement our resource

budget—as the figures in our submission show—with asset disposals. However, we recycle as well, acquiring and developing new assets. The process is on-going: we are always involved in economic development, and we will develop new assets in future years.

Brian Adam: I accept that the process is on-going, but does the budget have fresh implications for it? Are you going to pay for restructuring or other costs by disposing of assets, or will you supplement any reduction in your budget by increasing the income that you receive from existing assets in order to maintain particular activities?

Jack Perry: In many respects, we act as a developer. We acquire assets, work on them and then sell them on. That is a regular process. Off a lower budget base, our ability to acquire new assets and work on them might change, and over time it is possible that our ability to generate fresh gains will diminish. However, we are not an investment or a property-holding company. We exist to bring non-productive land or assets into production and get as much private sector leverage as we can.

Brian Adam: So if that is not your core business, why are you continuing to do it?

Jack Perry: In terms of business infrastructure, it will remain core. I said up front that improving the business environment through projects that have national or regional significance remains part of what we do.

Hugh Hall: Increasingly, our work is not about holding investments in order to make a financial return. There are RAB—resource accounting and budgeting—implications in holding on to assets, so we prefer to consider what we can dispose of readily from our whole non-operational asset base to meet commitments. There is a presumption in the budget that we will dispose of some assets and realise some income, and that element will rise over the three years. We will also retain some assets, because we have existing tenants and commitments and we are getting a return from rental schemes.

Another area that we have explored is using our assets in a more innovative way by working with developers and others, as has happened in some of the regional development agencies south of the border. That would involve sweating our and the private sector's assets, perhaps through a special purpose vehicle. We are at the early stages in considering that, but we would like to probe it further. Can we deliver what we need to deliver in physical business infrastructure and other projects through innovative funding techniques? There is definitely scope for us to do that. It is done elsewhere, so we should be able to plagiarise.

Another consideration is how to use property asset disposals to meet our budget commitments. If a significant project came along that required £15 million or £20 million, and we did not have the funding in our budget, we would look to realise some assets to fund it. That is how we will look at our assets over the three years.

Marilyn Livingstone (Kirkcaldy) (Lab): I have some specific questions on the transfer of budgets to the skills agency and local government. The minister has made announcements about decentralisation and how the landscape will be decluttered, but a lot of us on the ground are not seeing that and are not convinced that it is happening.

You spoke about voluntary redundancies. How are they to be financed, and have you any idea of the cost?

In response to Brian Adam, you spoke about selling assets to support Scottish Enterprise. From what the minister has said, the reorganisation covers all of Scotland. Local economic development will come from the councils and the skills agency will be working, but if Scottish Enterprise sells an asset—I am thinking particularly about my constituency in Fife—it might be detrimental to overall economic development. We all have concerns about that.

You talked about better connectivity and better working with partners. How will you achieve that?

I am interested in what stage you are at in establishing which staff will move from the centre to the localities. I am interested in how you will reach agreement with local government, because that is important to me. Will you give local government and the skills agency the authority to deliver programmes? In other words, as well as the budget and staff, will those bodies be given the authority to deliver programmes?

Finally, how will you ensure that the work that you do nationally supports regional and local economic development? That is important, because I would not like Scottish Enterprise to exist in isolation. Given some of the evidence that the committee has received, I am not convinced that the minister's aims will transfer to areas such as Fife—I am not in the comfort zone on that. I presume that many of my colleagues will have similar issues.

I have asked many questions on the subject, but I have been told that they are for Scottish Enterprise to address, which is why I am asking you these questions today. I know that they are wide ranging, but they are on the crux of the matter. Where are you in the process and how will you ensure agreement?

Jack Perry: Gosh—there were several questions there, but we will do our best to address them.

You asked about the financing of the voluntary severance scheme. We have allocated no more than £25 million for that. The payback period will be less than three years and probably closer to two, which is not a bad period for a major restructuring programme. We have opened the consultation on the scheme and we are seeking volunteers. There are significant risks: we may not get sufficient volunteers or we may not get volunteers in the right places or with the right skills, in which case we will deny those volunteers the opportunity to take severance.

Our reform and our ability to generate the savings that I identified earlier are entirely contingent on our ability to deliver the full number of voluntary severances, but there is no guarantee that we will be able to do that. The use of a voluntary scheme necessarily restricts our ability to realise savings. The consultation has started and we will have to wait for the outcome. It remains open until, I think, the end of February, so we have some time to wait before we see how the scheme pans out.

On staff transfers, we are working on the exact staffing model that we want for the future. Some of the process is contingent on what happens with the severance scheme and on our ability to transfer people outwith a normal commuting distance. Some of the transfers will take a little more time to effect.

On asset sales and authority, I see no diminution of our participation in consultation with business and public sector partners on wider economic benefit for Scotland. We are conscious of our responsibilities as an economic development agency for all lowland Scotland, which includes the cities and the rural areas. I find it hard to think of a single project in which we have engaged in an activity that has been to the detriment of a wider economic plan or policy.

Marilyn Livingstone: I asked whether, in future, if you sell assets to support Scottish Enterprise's bigger projects, that could be detrimental to regional and local development. I was asking about the future.

Hugh Hall: We will continue to work closely with local government and other agencies in delivering our business, so there would be discussion and dialogue in the course of such a process.

There is another issue on which we need to give you absolute assurance. As the cabinet secretary made clear in his announcement, Scottish Enterprise will continue to operate at national, regional and local level. We are committed to pushing as much of our business out to the front

line as we can. The deals that we do in Fife energy park, in the BioQuarter and on the Clyde, for example, happen because we have people who have excellent relationships with local government and the other agencies. We expect that to continue. In addition, it will be reinforced through co-location. Funding issues mean that we want to work together to ensure that we get the best bang for the public sector buck.

Marilyn Livingstone: I have no problem with continued support for Fife energy park; I am concerned about the stuff that falls outwith the priority areas.

Hugh Hall: One area on which we are holding discussions is regeneration. Large-scale projects such as Fife energy park and the BioQuarter—physical business infrastructure that will have a real impact on economic development—will be led by Scottish Enterprise. Local regeneration will be led by the councils; they are the best placed to do that.

In the middle ground—urban regeneration companies are probably the best example—we will continue to work in partnership. For example, when we were negotiating the spend profile for Riverside Inverclyde for the next few years, we were keen to ensure that physical business infrastructure and economic development were built into the contract with the URC. We will continue with that commitment.

The Convener: I think that what Marilyn Livingstone is driving at is this: if you have less money, and if your budget will reduce because of the transfers that you have acknowledged, something will have to give. Everything cannot be a priority.

Jack Perry: Absolutely. Local regeneration is now firmly in the remit of local government. I said earlier that we would have to prioritise and that some of our decisions would be unpopular. However, we will no longer be responsible for local regeneration projects where the benefit is in civic amenities, retail or those kinds of things. We have been withdrawing from that kind of stuff for a number of years. The amount that we do is actually fairly minimal.

Marilyn Livingstone: I am aware of that; you are telling us what we know. What I am trying to tease out is how we can be confident that the staff, the budget and the authority that is required will move with projects.

Jack Perry: We still have to agree on the amount of budget that will transfer, on the requirement for existing projects and on who will complete them. Commitments to URCs still have to be agreed as well. The amounts are not yet finalised.

The Convener: I was grateful for your earlier answer about which areas would not be priorities, but it would be helpful if you could go into more detail in response to questions from other members.

Jack Perry: Of course. Sure.

Gavin Brown (Lothians) (Con): Mr Perry said that some decisions would be unpopular. The budget figures are headline figures and do not take account of the money that we know will be moving out, but we are going from £465 million to £448 million—which, in real terms, means that we are probably going down to around £436 million. Can you give us an idea of what £30 million-worth of unpopular decisions might look like? We will not get exact answers this morning, but you must have some idea of the kind of things that will go.

Jack Perry: To answer that, I will bring in Hugh Hall and Andy Downie shortly. As I have said, we have a commitment to realise about £10 million in efficiency savings. Of the remainder, I genuinely cannot tell you at this stage what will be prioritised. We have a forward pipeline of more than £500 million of potential projects that we could work on, and we are now in the process of prioritising them. Those projects are not commitments—they are projects that we could work on in the future. We will comfortably meet all the commitments that are currently in the pipeline, but we will have to figure out how the potential projects will fit in in the future, so I cannot give an example of a project that we know we will be unable to work on in the future.

10:00

Andrew Downie: As Jack Perry said earlier, we are considering our overall business plan. We have to manage a pipeline of projects over a span of more than a year, and an annualised budget creates problems for us. However, the focus over the next couple of months will be on developing a robust business plan and achieving a balanced budget. It is crucial that we balance our budget. It is a challenge, but we must take a long-term view of economic development over a three to five-year span rather than consider only an annual period.

Jack Perry: Our commitments stretch out over many years.

Gavin Brown: There has been some debate in the committee about whether we have been given level 2 or level 3 data. The headline figure for Scottish Enterprise's budget for 2008-09 is around £448 million, and that is really all the breakdown that we have. Scottish Enterprise's draft budget for 2007-08 was broken down into seven or eight areas. There was money for growing business, skills and learning, global connections, management and administration, Careers

Scotland—obviously, money for it was included under the skills and learning heading from 2003-04—and voted loans, and there was a non-cash budget. Should we expect more of a breakdown of how things might pan out before we vote on the budget?

Jack Perry: In view of our timetable, providing such a breakdown would be desperately difficult. In a normal year, at this point we would just be embarking on developing our operating plan for the year commencing 1 April. Currently, we are trying to engineer profound reforms to the entire network. In addition, we have just been given our budget, and we are working through what it means for our operating plan, the efficiency savings that we can realise, and the transfers, which have not yet been agreed. We are trying to come up with a balanced budget within the timeframe that we have talked about, which goes beyond your timeframe for scrutinising the budget.

Perhaps Andrew Downie would like to expand on what I have said.

Andrew Downie: That is indeed the position. We are doing things as quickly as we can, but inevitably we are dependent on other parties. We have the target of going back to our board at the end of January with a business plan for the three-year span and an annual plan.

The Convener: I presume that the one point of certainty is that the Government has said which six industrial sectors it wants to concentrate on and therefore which industrial sectors its enterprise agencies will want to concentrate on. I presume that one can conclude that anything else will not be a priority.

Jack Perry: We are clear that the Government has endorsed six national priority industries, but beneath those are a number of regional priority industries and enabler technologies that affect a number of regional and national key industries. The regional priority industries will therefore remain priorities for us.

I should point out that a number of regional priority industries attract more spend than some national priority industries. We believe that the national priority industries, which will be increasingly focused on, and the regional priority industries have been endorsed. The term “regional priority industries” is perhaps unfortunate—we could look for better nomenclature. Basically, we are considering fields such as life sciences, in which Scotland has outstanding, world-class technologies. Scotland can play a leading role with such technologies in a worldwide market. I doubt that Scotland will ever be a worldwide leader in aerospace and defence, for example, but it can play a valuable role in their global supply chains. We have established real strengths in that area

and we want to continue to be able to support those industries.

Dave Thompson (Highlands and Islands) (SNP): Good morning, gentlemen.

There is one issue that I would like you to give me a wee bit of information about. How will the fairly substantial budget increases for roads, railways, ferries and social enterprises, the reduction in business rates and the increased spending on energy, for example, impact on Scottish Enterprise? You have, as you say, a very tight budget settlement. A fair bit of the budget is going into those other areas, which might well be areas in which you would have got involved in the past. I am interested to know whether that will make things a wee bit easier.

Jack Perry: That is a good question. We have been encouraged, as regards the economic strategy, by an attempt to join up and align various branches of the public sector towards economic growth. The strategic forum recently held its first meeting—it brings together Highlands and Islands Enterprise, VisitScotland and ourselves in an effort to bring about that greater alignment of spend. If, in the follow through, the spend on transport, energy and the other things you mentioned can be aligned towards a common goal of economic growth, it has the opportunity to be very powerful. In the past, we have not had that alignment. There is now an opportunity to make it happen.

In fairness—I am not making any political points on this—greater alignment of all branches of the public sector towards economic growth is something that we have talked about. During the currency of this budget, Scottish Enterprise will have less than 1 per cent of the Scottish Government's budget. We cannot be transformational on our own. We can get extremely good leverage for that money—we believe that the economic impact of what we deliver is probably about five times the amount that is put in—but even that cannot be transformational by itself if the rest of the public sector is not aligned behind growth. We welcome the move towards alignment, but a lot of hard work needs to be done to turn it into reality.

Dave Thompson: Thank you—that is very encouraging. You mentioned that you are co-locating with other public sector agencies and so on. How much do you expect to share back-room functions with those bodies?

Hugh Hall: There is a firm commitment from the cabinet secretary that we continue to have shared services and that we grow those. There is a presumption that we will continue to share services with the new skills agency. We have had discussions with VisitScotland and HIE in recent weeks about the ways in which we could do more

in the shared services area. Scottish Enterprise already has things such as a network finance centre and a network human resources resource, so we have already been consolidating the back-office services. We will redouble our efforts to get as much out of that area as we possibly can.

Lewis Macdonald (Aberdeen Central) (Lab): I am interested in the proposition that you have at the same time—in relation to the governance of the network—a decentralisation and a removal of local enterprise companies that involves putting all their functions to the Scottish Enterprise board. To understand that better, I would like to know what the position is with regard to Atlantic Quay. Is the disposal of Atlantic Quay one of the receipts that is anticipated in the budget?

Jack Perry: There is no intention to dispose of Atlantic Quay as a property. In any event—this might help to answer Mr Adam's question as well—we own very little in terms of operational assets. Pretty much everything is leased. We own one of our office buildings. We have a long-term lease commitment to Atlantic Quay. Although it is a very desirable property, we will see over time a significant reduction in the number of people who populate that office, and if surplus space becomes available we will sublet it. We talk about disposals of assets, but it is not our asset to dispose of: we would seek to maximise the value that we can realise in the event that surplus space becomes available. That has to be balanced with the availability of space in all our regional offices.

Regarding your point about decentralisation, we have made a commitment to keep all 12 of our local enterprise company offices. They will continue to be responsible for the delivery of service to our customers, the delivery of our major projects, and the initiation and identification of projects and programmes to be delivered; so they continue to have an important role. What is changing is a lot of the governance and the statutory responsibilities that go with the complex legal structure in which we operated before.

It would be wrong of me to say that the change has been welcomed universally, but many local enterprise company directors think that it will enable the new regional boards and industry boards to concentrate on areas in which they can really add value to the economy and to do fewer of the things that did not add much value but were extremely time consuming.

Lewis Macdonald: In the budget statement, the Government said that the changes to your budget

"include a cut in direct capital funding in line with"

your ability

"to fund capital projects through receipts from asset sales and collaboration with the private sector."

Can you give me a sense of the capital side of the budget reduction? Can you break that down?

Andrew Downie: The numbers are still to be finalised, but it appears that our net capital funding will be £52 million next year, and will decline in subsequent years. The figure is net of capital receipts—the property disposals that we mentioned earlier.

Lewis Macdonald: Are those property disposals that are already planned, or does the figure assume additional property disposals that you would not otherwise have made?

Andrew Downie: Part of our business planning process is to look at property disposals in subsequent years, over a three-year span. We also bring in additional income from other sources, including significant amounts of European Union funding that supplement our budget. The figure that I have given indicates the net capital position.

Hugh Hall: It is important to realise that the figure for capital funding is not capped. We can transfer resources from revenue, although we cannot transfer them in the other direction. We have a bit of flexibility.

Lewis Macdonald: You talked about the way in which you have acquired, developed and disposed of assets. Is it fair to say that the process of disposal and acquisition will be much more of a one-way street than it was in the past?

Andrew Downie: Not necessarily. It will depend on how the circumstances relate to our plans. As we have said to committees previously, one of the disadvantages of holding assets is that they have a resource cost. The valuations of assets and the costs of capital charges must be factored into our overall budget. However, we need to hold strategic assets and to develop our assets to support economic development.

Jack Perry: An extremely perverse aspect of resource accounting and budgeting is that, as an investment agency, we are almost disincentivised from investing. It is interesting that bodies elsewhere in the United Kingdom have been taken out of resource accounting and budgeting.

Lewis Macdonald: So that remains a concern for you?

Jack Perry: It is a major concern for us.

Hugh Hall: It is a huge concern. We have encouraged our staff to take what we call an investment-led approach to projects and programmes. They are to look at propositions in terms not of how much grant we will put in but of how much investment we will put in to get a potential return at the end of the day. In that way, we can recycle the public funding component. Given that we are dealing partly with market

failure, it is not always possible to get returns, but the potential for doing so exists. Resource accounting and budgeting creates a disincentive, because if we hold an investment we face a holding cost, and if subsequently we sell the investment at less than acquisition value we take another hit. That is perverse and pushes us down the road of grant giving rather than taking an investment-led approach. Any support that the committee or the Parliament could give us in changing the rules or taking us out of the RAB envelope would be extremely welcome.

Jack Perry: Another issue is our ability to retain and recycle future gains. If we have a windfall on a particularly good investment that was previously unbudgeted for, our ability to retain and recycle that is seriously limited. I accept that Governments have to make difficult and unpopular choices from time to time—we are not the only people who have to do that—but with a lower budget settlement, the flexibility to retain gains would be welcome and would provide better leverage for the sums that are invested in Scottish Enterprise.

Andrew Downie: We have given briefings on resource accounting to previous committee members. If the committee would like an opportunity to hear more about that issue, we would be delighted to offer a briefing.

The Convener: I have sat through a lot of briefings previously.

Lewis Macdonald: So if we are suffering from insomnia—[*Laughter.*]

The Convener: Keep going, Lewis.

10:15

Lewis Macdonald: On a slightly different issue—although we may return to that one—

The Convener: We may.

Lewis Macdonald: The convener asked about cluster industries and the six national priorities. Intermediary technology institutes—or rather the ITI and its subsets—have made a significant contribution over the past two or three years. Do you regard them as a priority that could roll forward in spite of the much tougher financial climate?

Jack Perry: All our activities are reviewed and monitored constantly to ensure that they are delivering what they were expected to deliver. The ITIs will be subject to the same budget scrutiny as all our other activities. We remain committed to the ITI project. However, I cannot tell you at this stage about the impact of this budget on their activities.

The Convener: Brian Adam has a supplementary question on assets.

Brian Adam: We are certainly interested in resource accounting and budgeting, but can you encapsulate in a few words why you should be the special case that you want to be? Is it that you cannot get the same return on your capital asset, given the nature of the business that you are involved in? Is it for some other reason?

Jack Perry: It is not that we have concerns about our ability to raise returns. If we invest in an asset, and if—as Hugh Hall said—we take a charge in the year when we acquire the asset as well as an annual charge thereafter for every year we continue to hold the asset, we are effectively being asked to pay for the asset twice. Over time, as we acquire assets and continue to hold them, our built-up liability for annual resource charge also increases. We have to reserve some of our budget for that. If we do not have sufficient non-cash resource cover, that cover has to come out of cash resources, and we have to cut back on programmes to afford that.

We are not necessarily asking to be a special case. Scottish Water was taken out of resource accounting and budgeting because it has a major investment programme. The NHS in England and Wales has recently been taken out of resource accounting and budgeting—it, too, has a large investment programme. The English regional development agencies have a pooling system for their resource accounting provision, whereby they can share any unused portions if one of them is over in any one year—but we have no one to pool with.

To an extent, our ability to do the very investment activities that we would like to do is inhibited. As Hugh Hall mentioned, in the past couple of years we have often found ourselves with some quite attractive investment propositions but we have simply been unable to afford the holding costs of the asset. Instead, we have determined to give a grant. That might get the job done, but it minimises the potential return, or upside, that the taxpayer might have been able to get on the investment. That is the inhibitor.

Christopher Harvie (Mid Scotland and Fife) (SNP): My questions are mainly about the relationship between Scottish Enterprise and the foreseen expansion of the renewable energy industry. I know that that is not your main line, but it is bound to have an effect on your strategic planning.

First, though, I will say a couple of words about where I am coming from. I was joint head of the international economics course at the University of Tübingen. Our economics department—I am not part of it; I was part of the humanities side of it—was reckoned by *Der Spiegel* to be the best in Germany, just as Baden-Württemberg was reckoned to be the best industrial region in

Germany. That was achieved by concentrating in the 1980s and 1990s on the things that we in Britain were instructed were old hat—metal bashing, essentially. However, 24 per cent of gross domestic product there still lies in metal bashing, and it is paying off very handsomely.

This would be the point where, from another point of autobiography—I wrote the history of North Sea oil—

The Convener: Could we please hear your questions? I am sorry to be difficult.

Christopher Harvie: Yes—sure. In 1993, I wrote the history of North Sea oil. In 1988 to 1990, I went down the Clyde and looked at the various places that were producing. Scott Lithgow in Greenock had the most sophisticated yard, which was capable of producing the most ambitious drill ship in the world. It is still in service—it is the Ocean Alliance. Up in Govan, a North Sea ferry was fitting out. Those are examples from two industries that have almost completely vanished. There was also the John Brown group at Clydebank, which produced rigs for the North Sea. Like everything else in Scotland, that yard is to become the site of a supermarket.

Jim Mather expects 50 per cent of our energy to be taken from renewables by 2020. From that, we can postulate that an enormous expansion in the industrialisation of the country will be directed at that sector. Judging by what I saw, principally in Inverness, wave technology has reached the stage at which it is about to take off. The situation is similar to that of North Sea oil when the Montrose field came on stream in 1968. That means that we will have to move very quickly—within six or seven years—and with due consideration of the import of goods and all that sort of thing, remembering the disaster that that caused when the North Sea operation was set up in 1976.

We will also have to work much more with continental companies, given that we no longer have the manufacturing resource to hand. With the exception of Aberdeen, nearly all the places that helped to manufacture for North Sea oil have disappeared. Scottish enterprise agencies, north and south, must represent the national interest in that collaboration. The sheer size of the industry that we expect to be developed will unquestionably bring a change in your orientation.

What plans do you have over that six or seven year trajectory, to keep up? In other words, there is a sense in which you will have to become a renewables Statoil.

Jack Perry: That is a very good expression. Your contribution ranged pretty widely; I will address a few of the points you raised.

As you rightly said, the target is ambitious. We want to support it. Energy is one of the six key priority industries for us in the future. That includes not only the technologies that Scotland has in abundance in the extractive industries, which we need to get out and sell to the rest of the world—we have some effective examples of that—but renewables.

You mentioned wave technology. Scottish Enterprise is an investor in Ocean Power Delivery—we are continuing to support that. In the main, the Fife energy park is about the manufacturing capabilities that will support renewable technologies in future. In addition, in conjunction with Rolls-Royce, Airbus and companies such as GKM, we are supporting the advance forming research centre that is looking at new materials. Initially, that will principally be done for the aerospace industry, but it will also have applications for related industries such as energy, with particular relevance to materials that will be required if we are to capitalise on the renewables opportunities.

Advanced engineering is one of our priority enablers. We have a number of successes in that respect, one of which is the AFRC. Another is the Scottish manufacturing advisory service, which has got off to a cracking start. It is now recognised as having made a very positive contribution.

The other area that we are working on at the moment is power networks. There is a real challenge with a distributed generation system, as opposed to a centralised generation system that takes power from the centre out to the rest of the country. The challenge in generating thousands of power sources is that our current grid and power networks cannot cope. Scotland has some outstanding technologies in this area, which is a relatively unsexy part of renewable energy. Not many other places are doing it.

There is now a great opportunity for Scottish Enterprise to attract private sector investment into an organisation similar to the advance forming research centre. That would enable us to marry the technologies of our universities and attract private sector investment to make Scotland a real centre for this type of technology. Those are the kind of areas where we can leverage up our investment and help to support the agenda, which we agree is ambitious.

Christopher Harvie: I have a brief supplementary on that.

The Convener: As long as it is brief.

Christopher Harvie: Very briefly, we are heading for an economic situation that is not the best possible one. The subprime mortgage problem will work through to an awful lot of the housing retail axis that has driven British economic

development to date. Will the prices for industrial premises and housing premises in which you may have interests hold up sufficiently to enable funds to be transferred across to such sectors, which—I totally agree with you—are the future?

Jack Perry: Gosh. If I could predict that with any certainty, I would not be doing this job. I pass. You are right: we are going through a period of significant uncertainty. We are not an investment-holding company; we do our work and sell on assets as and when we have done our development work on them. The last thing that I want to do is talk us into a recession, because that will not necessarily be the case, but we have operated through good times and bad and will continue to do so. It is unclear what the current situation's impact will be on residential and commercial property markets.

The Convener: I have two final quick questions based on the evidence that you have given. I think you said that the payback on voluntary redundancies would be over two to three years.

Jack Perry: Yes.

The Convener: That, of course, is the period of the spending review. Is the logic of that that there will be no net saving to the organisation if the payback is over that period?

Jack Perry: The savings would continue long beyond—

The Convener: I am talking about over the spending review period.

Jack Perry: No, the spending review period did not enter our calculations. It is simply the cost of 200 redundancies.

Hugh Hall: We hope to fund the redundancies from the current year's spend so that we get the benefit in the next three years. There will be a positive impact over the three-year period of the spending review if we can process and pay for those redundancies this year, and we have made provision to do that.

The Convener: Given your earlier evidence, that is a big if.

Hugh Hall: Do you mean a big if that we will achieve the numbers?

The Convener: Yes.

Hugh Hall: We went through a redundancy programme with directors and senior managers at the tail end of last year. We were pleased with the response that we had from our colleagues and we were able to generate the sort of numbers that we wanted. Early signs are encouraging. We are working hard to put the structures in place so that, over the Christmas holiday period, staff will be able to consider their future and where they fit into

the new organisation. We hope that volunteers will come forward and we will be able to do the deals before the end of March, but there is no certainty about that; it is an imponderable. We will not hit the budget directly on the button; it may be a bit more or a bit less, but the budget gives the sort of figures that we are looking for. We want to maximise the amount of money that we spend this year, subject to affordability, so that we get the benefits in the three years following.

The Convener: Yes, but "this year" is between now and April.

Hugh Hall: Yes, the end of March.

The Convener: That would be a big challenge for any organisation.

Hugh Hall: It would.

The Convener: How much does it cost to run the local enterprise companies and all the other things that you are sweeping away—and, therefore, how much will be saved?

Jack Perry: I do not know whether we have with us the details of the split of the management and administration cost.

Andrew Downie: We do not have it available today but, as Jack Perry mentioned, we are retaining a regional presence so—

The Convener: I am not asking that. We keep being told that the figures are significant, but we are never given them.

Jack Perry: Let us be clear on a couple of things. The directors of local enterprise companies are all volunteers who have donated their time generously and freely. There is absolutely no cost saving in doing away with them, although we save quite a bit of their time on non-productive activities. There will be savings on the cost of servicing the statutory requirements of those companies. Those savings will be real, although they are not huge. A lot of the savings arise in our ability to delay the management of the organisation—which is where the 200 redundancies largely come from—that services the local enterprise company network from Atlantic Quay as well as some positions in the local enterprise companies.

The Convener: It would be helpful to have some written evidence on that.

Jack Perry: We can give you the breakdown.

Marilyn Livingstone: Will there be any impact on VAT charges because of the changes to the network? I read an article about that in *The Herald*.

Jack Perry: That issue has been known about for a long time. The VAT concession was granted

by HM Customs and Excise, as it then was, but we knew that, even if we did nothing, it was open to challenge and we could lose it at any time.

When we looked at restructuring the network, we knew that there was a risk that changes to the legal structure might trigger a review of and challenge to that arrangement. At this stage, there has been no formal notification but there is a distinct possibility that the VAT benefit will be lost. I stress that that could have happened at any time within the past several years.

10:30

The Convener: Okay, gentlemen. Thank you very much for coming along this morning. We will look to receive as much information as you can provide before the end of December, otherwise it will be difficult for the committee to come to a view on your budget because we do not know what it is or how it will work.

If everyone is happy to keep going we will move right on to take evidence from Sandy Cumming, the chief executive of Highlands and Islands Enterprise, and Forbes Duthie, director of corporate services, and Sandy Brady, director of strategy, both of Highlands and Islands Enterprise. We are also joined by Peter Peacock for this part of the evidence session.

Mr Cumming, do you want to make any opening remarks? If not, we will just move straight on to questions.

Sandy Cumming (Highlands and Islands Enterprise): I will make some brief remarks, convener, if I may. Thank you very much for the opportunity to discuss these important issues. I do not intend to indulge in a history lesson, but I will say for the record that I have been involved with economic development in the Highlands and Islands since 1973 and that we have seen dramatic progress in our area during that time. It has been my good fortune to work for the Highlands and Islands Development Board and, currently, for the Highlands and Islands Enterprise network.

Today, we are facing a period of significant change. I am excited by that change and the opportunity to create an integrated regional development agency that will prove its worth in 21st century Scotland. Our broad focus will be on three areas. We will support high-growth business and thus raise regional and local growth rates. Critically, we will retain a role in strengthening local communities, especially in the most fragile parts of our area, which, I might add, contain 90 inhabited islands that are very precious to us and an important part of Scotland. Finally, we will create the infrastructure and conditions to improve regional competitiveness.

We understand the critical nature of structures and we believe firmly in decentralisation and the empowerment of our staff and local communities. That is at the heart of our organisation's success in the past years, and it will be at the heart of the new organisation.

The area has made great progress during the past few years and, going forward, I see more success being built on a successful, dynamic and creative partnership involving the private and public sectors and, critically, the voluntary sector.

I will be very happy to take questions.

The Convener: Thank you very much. We will start with the budget. Before HIE loses an as yet unknown amount to the new skills agency, its budget will be cut by £54 million over the term of the three-year spending review. That will be pretty challenging by anyone's standard, will it not?

Sandy Cumming: For the record, I should say that our normal budget provision—from the previous spending review—will be cut over the next three years by £40 million. I draw the committee's attention to our operating plan—the document has been in the public domain since spring this year. In our forward planning, we identified that the extra resource in this year's budget would not be available in the next three years. The organisation's planning has been based on a budget of grant-in-aid provision of—Forbes Duthie will keep me right—£89.9 million, plus resource accounting of almost £14 million. In any case, that is how we have been planning for the organisation.

The Convener: My understanding is that the real-terms figure is £54 million over three years. Are you saying that that is not correct?

Sandy Cumming: This year, we have a significantly enhanced budget. We welcome that and, as ever, we will invest that money wisely in the Highlands and Islands to achieve good, positive outcomes. However, we knew that in the order of £10 million of that budget was an uplift that we would not have in the future. It is important to say that we did not plan on the basis of having that extra £10 million in the next three years.

The Convener: The figure is £40 million, then—this is like an auction. How will you cope with £40 million coming out of your budget? What will no longer be a priority? What will be cut?

Sandy Cumming: One aspect that we have identified in recent years and which we are pretty well down the track of reviewing is the amount of money that we invest in property activity in the Highlands and Islands, which is about £15 million to £20 million in any one year and is probably too high. The modern Highlands and Islands economy is such that there is less market failure in some

parts of the Highlands and Islands. We should stimulate the private sector to take more of a leading role in property development. Through several activities, we could reduce our spend on property by up to £10 million a year. That is an immediate, big way in which we could adjust our budget to reflect future provision.

The Convener: What other spending will be cut? We cannot obtain that information from the Government, because it tells us that that is an operational matter for you, so we ask you for the evidence on what will be cut.

Sandy Cumming: We are talking not so much about a cut as about matching the resource to the area's needs, which has always been our approach. We ask where we get best value for money and the best outcomes for the Highlands and Islands on growing high-growth companies, strengthening our communities and creating the infrastructure to enable the area to be a competitive region. I agree with Scottish Enterprise—we are at a critical stage of operational planning on how the budgets will be cut going forward. I am sorry that I cannot give you chapter and verse on that. The single biggest difference will be in the amount of money that we invest in property.

The Convener: So by the time that the committee must approve the budget—or otherwise—we will not know your operational plan for the coming financial year.

Sandy Cumming: I say with regret that you will not have the fine detail.

The Convener: What do you mean by “the fine detail”?

Sandy Cumming: I mean the amount of detail that is in our operating plan, which will become available in spring next year.

Brian Adam: Will you give us some idea of the impact that you expect the co-location of your staff with those of other agencies locally to have on your need to maintain your current level of office space? What impact might that have on your budget?

Sandy Cumming: I am committed to co-location and have been for some time, but I think that the committee would agree that co-location is not an easy task. I will give three examples of work in progress. We have committed ourselves to working in a new environment in Golspie in Sutherland, where Scottish Natural Heritage is to procure a new office. We will be co-located in that office alongside other elements of government, instead of having our own individual office.

For the past year, we have been working closely with Orkney Islands Council on how we could co-locate in Orkney. We are close to an opportunity,

which I hope that we can announce by Christmas, for our staff in Orkney to be co-located, under one roof and on one platform, with some staff who work in economic development in Orkney Islands Council and—I hope—with VisitScotland staff. I am excited by that opportunity.

In Inverness, where most but not all of our core is located, we occupy Cowan house. Because we have dispersed staff from Inverness to outwith Inverness, we have some space, so we are negotiating with another public body on whether it can occupy a significant part of our office space. That is the direction of travel; I do not know whether that answers your question.

Brian Adam: That is exactly what we are looking for. It would help the committee's work to have an idea of the cost implications of that activity in due course. As the convener said, having that information for the budget process would be convenient for us, but we accept that the timescales involved mean that that might not be possible.

My next question relates to your other assets and your access to capital. What is your current asset base, what kind of return do you get on it, and what implications does it have for the budget? In response to a question from the convener, you indicated that your major savings will come from not investing £10 million a year in property. That implies that you have significant amounts of capital assets, on which you have returns. Do you have plans for appropriate disposal of any of those assets? Is it part of your core business to continue to manage that estate, bearing in mind the resource accounting and budgeting problems that Scottish Enterprise has encountered?

Sandy Cumming: In responding, I will involve my colleagues as appropriate. The current valuation of the assets in our property portfolio is in the order of £40 million, which is a considerable amount of money. The reason why we hold those assets is largely historical, but it reflects market failure in almost every sub-economy in the Highlands and Islands. At the moment, we are examining critically whether there is a new way of proceeding and how much property we should own in the future. Instead of investing in a new building that we will own, can we get the private sector to do that, albeit with some assistance from us? I would also like to see whether we could get a social enterprise to own some of our assets. Is that a way forward, in the spirit of community enterprise? We are teasing out many of the options that exist. We need to conclude the exercise as part of our operational planning, so by January or February we need to bring a paper to the board that explains how the system will work in the future, in dialogue with our sponsor team.

Forbes Duthie (Highlands and Islands Enterprise): Routinely, we sell between £4 million and £5 million-worth of assets a year and recycle the money back into our capital programme. We recognise that it is not HIE's long-term role to be a landlord. Once we have developed and let a property, we should let the market take it forward. That allows us to release and reinvest capital, to get the best out of our resources.

As Sandy Cumming outlined, we have about £40 million-worth of property assets. We are considering how we can manage those in a more efficient—and tax-efficient—way. There are a significant number of capital allowances to which we cannot get access at the moment because of our tax position. We will put that issue to the board in January. More efficient management of our property assets would give us the opportunity to generate substantial income, either through rentals or through property sales. We are considering those matters as part of the overall budget process. However, like any business, we would do that anyway, to maximise our efficiency in the future.

Sandy Brady (Highlands and Islands Enterprise): The portfolio has been assessed property by property. We have considered which properties we want to retain strategically in the longer term—probably a minority of the total holding. As Forbes Duthie described, we have also identified those properties where we have a stable relationship with a tenant and where some form of disposal, either directly or through a property company, may be the way forward. We have proceeded property by property because we know that the value of properties depends on the part of the Highlands in which they are located. A property in Inverness has a different economic development value from an identical property in Wick or Thurso.

Marilyn Livingstone: I have a practical question about budget realignment to local authorities and the new skills agency. What progress have you made on that? How are you reaching agreement on the issue? Will there be considerable movement of staff? How are you managing that? What point have you reached in the process?

Sandy Cumming: We do not yet have the complete answer, but I am happy to share information on the work that is in progress. The enterprise networks review required us to introduce the business gateway model in the Highlands and Islands. We are doing that in partnership with local authorities. We have set up a joint task group, which has met once and will meet again soon. We have no doubt that the task of creating an identical business gateway model in the Highlands and Islands, which will be managed

and delivered by local authorities, will be completed in early 2008.

10:45

Budgetary and staffing implications follow from that. On staffing, let me share with the committee that, in Highlands and Islands Enterprise, our staff tend to be multidisciplinary. We can seldom identify people who do solely one job; people do a range of tasks. Going forward, we will need to tease out how many staff we will need to transfer across to deal with functions such as the business gateway, which might currently account for only part of someone's job rather than the whole of it. I do not know whether I have managed to bring that out fully, but that is one of the tasks and challenges that we face.

On the new skills agency, we are in a similar position to that of Scottish Enterprise. Our chairman, Willie Roe, is part of the shadow board that has been set up. The programme management board that has been set up is populated by our skills director and one of our senior Careers Scotland people. Their contribution will ensure that the model going forward very much takes account of the needs of the Highlands and Islands of Scotland. Of that, I have no doubt.

We believe that there is clarity about some aspects of the changes—for instance, we are in no doubt that we will no longer be involved in the national training programmes, which will be the responsibility of the new body—but we need much greater clarity on whether we will have a role in workforce development. We need to move forward on that.

Another skills issue is the need for regionally strategic skills development. For example, I would argue that the UHI Millennium Institute—the critical importance of which I have highlighted to the committee on previous occasions—is in the bag of regional competitiveness. I believe that the new HIE going forward should continue to play a leading role in such transformational projects.

Another debate concerns whether HIE will have a role, acting in partnership with others, as a delivery body for the new skills agency in the north of Scotland. In that debate, the cabinet secretary, the shadow board and the programme board are very much considering our involvement, but we do not yet know the answer. I am sorry that we do not have the complete details. We know the minimum, and we are trying to work out how many staff will actually transfer across.

Marilyn Livingstone: It is interesting that HIE is a bit unclear about where workforce development will sit. In their evidence, the witnesses from Scottish Enterprise seemed to think that workforce

development would sit with them. The committee probably needs to seek clarity on that.

Sandy Cumming: Let me come back on that. I have no doubt that we will have a continuing role in growing companies in the Highlands and Islands and that we will play into the skills component of that. That is my interpretation of the decision. I welcome that decision, as it makes sense in terms of account management. However, in addition, we are involved in many other workforce development activities. We work with key bodies such as the Construction Industry Training Board to consider the needs of Highlands and Islands industries in the round. The issue is whether such activities are considered as workforce development. We need to get into the fine detail of interpretation.

Gavin Brown: HIE's written submission states that its budget for 2008-09 will be £91.8 million. It also states:

"To this total will be added an estimated £16.5m in receipts".

I have some questions about that. First, what will that figure be for the subsequent year? Is the 2008-09 figure particularly high? Will receipts go up or down? Secondly, how do those receipts break down into the categories of property sales, loan repayments, European funding and what the submission describes as "other sources"?

Sandy Cumming: I ask our finance director, Forbes Duthie, to deal with that.

Forbes Duthie: I am happy to answer that.

The £16.5 million is derived from property sales, loan income, investment returns and European income. Going forward, we expect that the level of additional income that the organisation generates will be maintained at around £16.5 million. Of that total, property income accounts for about £9.3 million and loan income for just under £1 million. The other major contributor is European income, which accounts for about £5 million. We very much see that continuing in future years. In the previous year, loan income was somewhat higher because we had a number of non-recurring loans that we put into a particular sector and which were subsequently repaid. However, loan income will be stabilised going forward.

Gavin Brown: If I heard correctly—I am happy to be corrected—HIE has made £9 million from property sales in one year and hopes that that will remain the case going forward. Did I not just hear that HIE owns about £40 million-worth of assets overall?

Forbes Duthie: Sorry, I clarify that of the £9 million from property, half comes from property sales and half comes from rental income. There are two strands—I consolidated the figure.

Gavin Brown: My next question is similar to one that I asked Scottish Enterprise. We have had a more comprehensive breakdown of the budget in the past for HIE than the one that we have now. The headings from the previous year's draft budget included "Growing Business", "Skills and Learning", "Global Connections", "Strengthening Communities", "Management and Administration" and "Non-cash budget". Can you give us a breakdown like that for the next three years, within the obvious constraints that we know about?

Sandy Cumming: Not at this stage, I am afraid. As I explained earlier, we are constructing the new organisation with three particular thrusts. Therefore, going forward, we will not have the breakdown, but we must identify very quickly the amount of money that, on a budgeting basis, we intend to invest in those three areas, which are high-growth businesses, strengthening local communities and improving regional competitiveness. Those are the three areas that we will bring back to the committee in due course, once our board has had the opportunity to review the proposed allocations.

Sandy Brady: The operating plan process does not involve only a top-down approach from the core of HIE; the plan is compiled with input from the local area teams on how they see the mix of those three broad activities locally. We consider the plan from their perspective as well as from a core perspective and try to bring the two together. We are hoping to finalise the operating plan so that we can put it to the HIE board at its February meeting.

Gavin Brown: HIE's budget will go from £103 million to £91 million and then down to £88 million. We have heard about the three main areas that HIE will focus on, but what will it not focus on?

Sandy Cumming: The single biggest change is that we will not focus so much on property acquisition at our own hand. Following that, we will take a hard look at the emerging priorities. Our clear evidence this morning is that we will invest in key industries in the Highlands and Islands, support fragile communities in the Highlands and Islands and address key local regeneration issues. I will give three examples. The first is the situation in Caithness in light of the rundown of Dounreay. How will we flex our budget to take account of the emerging situation there? The second is the Moray 2020 plan that we already have in place—how will we achieve that? The third is the need, which we will never lose sight of, to achieve sustainable growth in the Western Isles. How can we continue to find in our budget the resource to enable the Western Isles to achieve sustainable growth? Those are big issues, which we must interweave in our budget planning.

The Convener: I have a follow-up question to Gavin Brown's questions. The letter that we have received from the Cabinet Secretary for Finance and Sustainable Growth indicates that both HIE and Scottish Enterprise will be monitored on the basis of

"three areas—capital income and expenditure (net investment), operational expenditure and management and administration expenditure".

Those three areas alone are specified—I am sure that you have seen the letter—in a written description of how you will be monitored by the Government. How do those three areas fit with the three areas that you identified in your response to Gavin Brown?

Sandy Cumming: I think that the three areas that you mention fit in with our relationship with Government. We can manage the business according to those criteria. However, I must also manage the business in a way that gives people reassurance and helps them to understand—this is where the management systems need to be redeveloped—what our approach will mean for building sustainable growth in Orkney, Shetland or the Western Isles. How much will the agency, after its reconstruction, invest in those areas? We must have a sophisticated management system that addresses the three key areas that the Government is asking us to report on in relation to our budget. However, beneath that it must also be possible to examine how we spend our money on the three priorities that I mentioned and on individual economies. For example, what does our investment mean for Argyll and the islands? That is where we are going. We do not see any problem with our ability to report on those areas.

The Convener: One might see that as consistent with Mr Perry's evidence that there are national priorities and regional priorities—in fairness to Jack Perry, he said that Scottish Enterprise wanted to find a better word than regional. You have described pan-Highlands and Islands priorities and specific priorities for geographic areas, such as Argyll, below that.

Sandy Cumming: Absolutely. I give the example of engineering. It may not be listed specifically among the key sectors, but from my perspective the engineering sector, particularly in Caithness, is one of our greatest assets. We must try to work with the engineering companies in that area to give them the opportunity and capacity to become powerful engines of growth once the Dounreay rundown starts to happen. We will focus where we see opportunity.

The Convener: Okay. Thank you. The problem for us in scrutinising the budget is that we do not have any numbers behind that.

Sandy Cumming: I accept that.

Lewis Macdonald: The best figures that we have suggest that, over the three-year period, Scottish Enterprise's budget will be cut, in real terms, by 14.2 per cent, and HIE's budget will be cut, in real terms, by 20.7 per cent. Do you have a view on why HIE's budget will take a much bigger hit over the three-year period?

Sandy Cumming: I do not have a view on that. There has been a need to make provision for resource accounting within Scottish Enterprise, which has been virtually impossible for the organisation to deal with over the past three years. As you will be aware, we have secured a resource accounting figure of £14 million. I would not say that we have got it easy, but we will have an easier time living within that than Scottish Enterprise will have. I think that there has been an equalisation of the challenge, which is appropriate.

Would I rather have an extra £40 million? Of course I would. However, going forward, we need to be smarter about how we create economic impact in the Highlands and Islands. That is what this is about.

Lewis Macdonald: Are you concerned that that disproportionately big hit will have a particular impact on some of the more far-flung communities? Proportionately, the role of the local enterprise company is even greater in the Highlands than elsewhere in Scotland, and changing HIE's structure may have an impact. Are you concerned that the budget cut may have a disproportionate effect in some areas?

Sandy Cumming: I cannot give you absolute assurance on that because we are still mid-process in our operational planning. We are into our third round of European funding, and it is critical that we ensure not only that, in partnership with the local authorities and with the investment that will be made available to us over the next three years through the spending review, we get the best impact particularly in the fragile areas of the Highlands and Islands, but that we enable the growth of the Highlands and Islands economy going forward. Sandy Brady may want to add to that.

Sandy Brady: It is important to understand that we are aiming to raise the economic growth rate of the region as a whole. Nevertheless, we are an agency that works at the local level as well as at the regional level, and we cannot take the whole of the Highlands and Islands forward unless we are able to take forward the constituent parts of it. The nine local economies face different challenges, and we must ensure that the resources do not simply follow where the greatest opportunities lie. Sometimes we must balance that with looking at where the greatest challenges lie—in places such as the Western Isles, our many island communities and the sparsely populated

communities of the north and west coasts. We will continue to be active there, with teams on the ground trying to take those areas forward. We believe that, if all the areas of the Highlands move forward at their respective paces, the region as a whole will move forward and make a bigger contribution to the Scottish economy.

Lewis Macdonald: You have identified a potential saving of £10 million or so on property acquisition in the next financial year. I presume that that will roll forwards. If I recall correctly, the income from properties that you have developed and sold on is of the order of £4 million to £5 million a year. How does the £10 million reduction compare with your overall property development budget? What are the implications of your no longer acquiring, developing and re-selling property for your income three years hence?

Sandy Cumming: The broad figures are that, instead of investing up to £20 million, we will kick out £10 million. You are absolutely right to say that we currently have a rental income of just over £4 million. Should we choose to dispose of a significant amount of our estate, that would have an impact on the contribution of rental to our income. That contribution will be less than £4.5 million in the future; the question is whether it will be £1 million, £2 million or £3 million less. As part of the financial planning going forward, Forbes Duthie is factoring that into our operational planning right now.

Lewis Macdonald: Will you be able to give the committee any information on that before the end of the year?

Sandy Cumming: Sorry, no. We have to present the whole operating plan to our board and, as Sandy Brady said, that will be done in the early part of next year.

Dave Thompson: Good morning, gentlemen. It is good to get some good news this morning. I am glad to hear that you do not recognise the description of yourselves that appeared in *The Press and Journal* yesterday. According to the headline, you were going to suffer a £100 million hit. I am glad that you have clarified that the reduction will be £40 million, not £100 million.

The Convener: Hallelujah!

11:00

Dave Thompson: Absolutely. The article also mentioned centralisation, which was touched on earlier today. Are you planning to centralise any of your services within the Highlands and Islands?

Will HIE make a proportionately greater saving from the abolition of the LECs than Scottish Enterprise? Your budget is a quarter of Scottish

Enterprise's budget, yet you have almost as many LECs.

Sandy Cumming: Centralisation is often identified with Inverness. That disappoints me, because the hallmark of our agency—particularly in the past seven years—has been to counter that trend. We have centralised our financial processing not in Inverness, but in Benbecula. Technology and management processes allow us to do that, and we are determined, as the executive management team of the organisation, to continue in that direction. However, while we have been very successful in that area, there is a threat. A lot of the activity that we carry out in Benbecula consists of dealing with national training programmes. I am concerned that I will need to convince the new skills body not only of the need to continue to carry out the national training programmes administration in the Western Isles, but of our desire to grow the capacity of the Western Isles to have more jobs. I register that concern with the committee—we could lose those jobs if a different policy is adopted by skills development Scotland.

We really are committed to decentralisation: wherever it is possible to do so, we will decentralise. In percentage terms, there are fewer staff working in Inverness than there were when HIE was set up. The direction of travel from the Government has been clear, and we have to—and we will—go further on that.

My colleagues will give you an appropriate answer to the question about LECs.

Forbes Duthie: We do not have figures for the savings—given that we have a similar number of LECs to Scottish Enterprise, we will benefit more from that reduction than Scottish Enterprise will. However, it is hard to quantify that saving, given the nature of the work that is involved, staffing and the work of servicing the committees and boards. However, in percentage terms, given the overall budget, you are correct—the saving for us will be a proportionately larger saving.

Dave Thompson: I am glad to hear that, and I am pleased that you have confirmed that HIE is a body that is into decentralisation—and not centralisation, as was stated in the press.

I will ask you the same question that I asked Scottish Enterprise. To what extent do you think that the reduction in your budget will be balanced by the increase in budgets for road, rail and ferry services, social enterprise and energy, and the reduction in business rates for small businesses? Previously, you might have put some of your funds into those areas, but now that funds are available for them, you will not need to do that. You might be able to do other things. Will that reduce the problem created by the reduction in your budget?

Sandy Cumming: Absolutely. I have to admit that the success that the Highlands and Islands region has enjoyed over the last 30 to 40 years is not solely due to our agency. HIE has been good, but it has not been that good, as some members will confirm, although I would like to believe that it has played a critical role.

The region's success is about the power of the combination of investments that have been made. I said to colleagues today that one of our real success stories in the past 10 years has been the emergence of Lifescan Scotland in Inverness. My organisation will probably claim total credit for that, but it could be argued—and a fair person would do so—that the decision to create a first-class regional hospital in Inverness was one of the main reasons why Lifescan Scotland went there. Economic development is about taking every single opportunity in the round. Our role is to be extremely creative and innovative and to work with partners and—critically—the public, private and voluntary sectors in order to make the biggest impact in the Highlands and Islands. The future will be different, but it can still be successful—I have no doubt about that.

Sandy Brady: A good example is the renewable energy sector, in which we have invested quite a lot in the past five to 10 years. Given that the sector is growing—as we heard earlier—we are hopeful that other major national sources of funding will drive the industry forward in the Highlands and Islands.

We put money into the European Marine Energy Centre in Orkney, the Arnish yard and the fabrication works at Vestas-Celtic Wind Technology near Campbeltown, and it would be great to see their capacity grow. We will not necessarily have to fund that growth, but we want those organisations to grow because they are drivers of the future in the Highlands.

Lewis Macdonald: I have a supplementary question on the dissolution of the LECs and its consequences. Will it result in the loss of any jobs outwith Cowan house, in places such as the Western Isles, Argyll or Caithness?

Sandy Cumming: It almost certainly will. It would be wrong for me to say that it will not because we are going to slim down the organisation. The budget is clearly being reduced—the figure that I am giving the committee today is a £40 million reduction over three years.

The organisation's staffing will reduce through a number of factors, but primarily through transfers. We know that Careers Scotland staff will transfer to the new agency. We have yet to determine the implications of setting up the business gateway or how many staff will move from Highlands and Islands Enterprise to local authorities. Likewise,

given the uncertainty about some aspects of skills development Scotland, it is unclear how many of our employees who work on skills will move to the new agency.

As we made clear in our written evidence, we propose to introduce a voluntary severance scheme, as Scottish Enterprise has done, which might slim down the agency by up to 50 staff. Like Jack Perry, we have to determine which people we can sign off under the severance scheme. To make the organisation successful, we need to have the best people in the right locations. In answer to your question, I cannot say today that there will not be reductions outwith Inverness. We will slim down in Inverness, but I think that the cuts will be made throughout the Highlands and Islands.

The Convener: That is pretty sobering for those of us who represent constituencies in the Highlands and Islands.

Peter Peacock (Highlands and Islands) (Lab): Thank you for your courtesy, convener, in letting me ask some questions. To return that courtesy, I will be happy to share the figures that I have on the matter with Dave Thompson.

I want to pin down Sandy Cumming's response to Lewis Macdonald's final question, so that I am clear about it. At present, HIE has offices in Orkney, Shetland, Caithness, the Western Isles, Argyll, Lochaber, Aviemore, Moray and Inverness. None of those offices will be exempt from your search for 50 voluntary redundancies, and those voluntary redundancies will be over and above the transfers.

Sandy Cumming: Correct.

Peter Peacock: On both points?

Sandy Cumming: Yes.

Peter Peacock: The in-year adjustment that you mentioned for 2007-08 is obviously more than £10 million; you said that you will not get £10 million next year and that you are budgeting for that. How much is the in-year adjustment this year? How much additional cash are you getting above your base budget?

Sandy Cumming: We will invest in the order of £118 million this year. On top of that, we have a resource budget of about £14 million. I do not know whether that answers your point, but that is certainly the figure that we are moving towards as we get to the end of the financial year.

Peter Peacock: In the figures for 2008-09 that you supplied in your written submission, the £14 million of resource cover, which is equivalent to the money that you mentioned in resource cover for the current year, is held within the total of £91.8 million, whereas this year you have £118 million

plus resource cover of about £14 million. Actually, the comparable figure to £103 million in the current year would be £118 million plus £14 million. Is that fair?

Sandy Cumming: I understand that point of view. We have additional income in the current financial year, which Forbes Duthie will be happy to explain. We have—

Peter Peacock: I understand that. I am just trying to establish what the headline figure is. Your actual spending this year, compared with the £103 million in the figures that we have, would be £118 million, and on top of that you have resource cover of about £14 million.

Sandy Cumming: Indeed. Correct.

Peter Peacock: Actually, I now realise that my figures are an underestimate.

Did you also have an in-year allocation in addition to your base budget in the previous financial year, 2006-07? Is it a fairly common pattern in recent years that you have had in-year additions to your budget for one reason or another?

Sandy Cumming: Yes, indeed.

Peter Peacock: Of roughly the same order?

Sandy Cumming: No, not as much.

Peter Peacock: Is that principally because of the Caithness money this year, which relates to the rundown of Dounreay?

Sandy Cumming: No.

Peter Peacock: Is it for something else?

Sandy Cumming: We were able to secure the additional resource for a targeted programme of capital projects that was agreed by the Government at the time. We are progressing those projects this year. During the course of the year, our board made a commitment that, going forward, we would try to find £12 million in addition to the normal resource to help with the regeneration of the Caithness economy.

Peter Peacock: Okay.

I want to focus on the impact on HIE's activities of the proposed changes. I have known Sandy Cumming for many years and I recognise that he is one of life's eternal optimists, who will always try to do the best in any situation. Even he says that HIE's activities will be "significantly adjusted" in the future. The submission goes on to say:

"HIE faces a significant challenge".

In response to Lewis Macdonald and to others, you have indicated that an easy option would be to reduce your property spend by £10 million. If that is an easy option, it rather begs the question why it

was not done before. What other programmes will you have to trim significantly? I presume that the 50 members of staff you will lose have been hard at work on focused pieces of work. Those 50 people represent a significant portion of your core staff. Their removal must have impacts on people and on businesses in the Highlands and Islands. Could you describe what those impacts might be?

Sandy Cumming: Our present staff have had the capacity to enable us to invest £117 million or £118 million this year. From an efficiency and effectiveness point of view, it goes without saying that if we have a smaller sum to invest, we will not need the same number of staff. That is difficult for us as an agency, because we regard ourselves as an exemplary employer. We have won a number of awards for being a good organisation to work for.

At the end of the day, what is at stake is economic development in the Highlands and Islands. The success of our agency is about the quality of the people who work for us and our capacity to meet new challenges. We must continually refresh the organisation's skills base. As we move forward, we must think hard about whether we have enough skills capacity to meet the challenge of growing high-growth companies in the Highlands and Islands. New training investment is an area that requires deep consideration.

I apologise, because I know that you asked me what programmes apart from property would have to be trimmed, but we cannot provide you with another significant one-off example today. A large chunk of the reduction in spend will come from property—it is the big one.

Peter Peacock: I want to pick up an issue that Marilyn Livingstone raised. In your submission, you say that your base budget this year was £103 million, which will go down to £91 million and then £88 million, at which level it will hold steady. You say that further transfers will be made, for the reasons that you have set out. In broad terms, what order of figure are we talking about? Is it £2 million, £5 million, £10 million or £15 million? Can you give us a feel for the amount that will be transferred, particularly for the business gateway? Although you do not operate the business gateway at the moment, your submission says that

"broadly comparable services are provided by Local Enterprise Companies".

Under the new arrangement, responsibility for those services will be transferred to local authorities. What order of costs are we talking about? I will not hold you to the detail of what you say.

Sandy Cumming: We are talking about a range. There is a worst-case scenario and a best-

case scenario, depending on one's point of view.

Peter Peacock: It depends which side one is on.

Sandy Cumming: Indeed. At the moment, I firmly believe that a minimum of about £15 million will be transferred.

Peter Peacock: A minimum of £15 million?

Sandy Cumming: Yes. I will explain why. National training programmes alone account for more than £10 million. The salaries bill and other costs related to Careers Scotland staff amount to another £4 million to £5 million. Those two figures alone produce a minimum of £15 million. Beyond that, there is greyness about how much might have to be transferred for the business gateway and any other skills activity. We are negotiating on such matters.

Peter Peacock: I am particularly interested in the business gateway component. How much do you think that that will amount to, given that there are seven local authorities in your area?

Sandy Cumming: We are talking about a figure of up to £2 million per annum for the business gateway.

The Convener: Brian Adam has a supplementary on that point.

11:15

Brian Adam: You have said that, as the 2007-08 base budget contains a one-off element, considering it alongside the 2008-09 draft plan is not comparing like with like. In response to Mr Peacock, you gave us some information about additional in-year allocations. Is it fair to compare figures containing one-off additional in-year allocations with draft base budgets? Moreover, without having any particular figure in mind, have you discussed with the Government the likelihood of any further in-year allocations? What are the appropriate comparators?

Sandy Cumming: Having been HIE's chief executive for seven years now, I think that our organisation takes a very mature approach towards what our likely future budget will be. We have not, do not and will not build any in-year allocations into future forecasting. Such an approach would be reckless, and we will not go there. We have always used the baseline grant-in-aid figure for future planning. I also repeat that the operating plan now makes it quite clear how we will build our organisation.

Does that answer your question fully?

Brian Adam: I also wondered whether, in the discussions that you must have had with the Government, there was any indication that the

pattern—though not necessarily the scale—of in-year additional allocations might continue. In the press—and I believe in the direction of Mr Peacock's questioning—certain figures have been used to try and draw comparisons between budget figures that included in-year additional allocations and the draft budget, which it is, of course, sensible for any Executive to look at. Have you had any indication that the additional in-year allocations will be changed?

Sandy Cumming: I will ask Forbes Duthie to answer that question. However, one other point that I should make is that I have always believed that if an outstanding investment prospect for the Highlands and Islands should emerge, we must be able to say to Government, "We need to invest in this; we need to find a creative mechanism that will allow this project to go forward". It is important that such a relationship does not change, and I do not believe that it will. We cannot see into the future and simply do not know what will happen in any one year, so we need the maturity and ability to go to Government if an additional project should emerge for which we do not have proper resources.

Brian Adam: Presumably that is what happened in 2007-08.

Sandy Cumming: We came up with a programme that allowed us to demonstrate how we could accelerate some of our plans for years 2, 3 and 4 over two financial years. As a result, we convinced the Government of the time that we had the capacity and ability to deliver those additional resources.

Forbes Duthie: The additional allocations come from two areas, the first of which relates to joint ventures. We work with the Government on, for example, renewable energy projects and receive additional funds almost on a matched funding basis. I hope that that position will not change and that we will continue to receive additional funding from the Government to support those projects.

The other area of additional allocation is end-year flexibility, which we tend to receive between January and March. HIE has routinely—and, to date, quite successfully—held a number of projects to exploit such opportunities. Whether, given the current tight budget settlement that is envisaged, that will continue, I do not know, but we think that we will continue to develop joint ventures with other parts of the Government.

The Convener: Before we move on, I want to ensure that we have on record the figures that Sandy Cumming gave to Peter Peacock. I appreciate that they were ranges, but I think that you said that you expected a minimum of £15 million to be involved in the skills transfer.

Sandy Cumming: That is right.

The Convener: Is the £10 million that you mentioned for the training programme included within that £15 million or is it additional to that?

Sandy Cumming: It is included in the £15 million.

The Convener: You said that the business gateway will amount to £2 million. Is that a minimum or maximum figure?

Sandy Cumming: It is our best estimate at the moment.

The Convener: Is that £2 million per local authority?

Sandy Cumming: No, sorry, in total.

The Convener: You think and hope.

Sandy Cumming: I certainly want to put on record that it is £2 million in total.

The Convener: We will wait and see with great interest how that pans out.

Christopher Harvie: I will ask three questions. One is about renewables—although it has already been answered to some extent—the second is about the transportation connections with Inverness, which will become crucial, and the third is about the rather unfortunate reputation that, despite all your efforts, Inverness has picked up of being the capital of a particular supermarket in a particular region. We might discuss that a little.

The Convener: That is not really HIE's fault.

Christopher Harvie: It comes into it; just wait.

The renewables industry seems to me to be of such likely immensity that it calls for your views on the following question: would you collaborate with UHI on modelling the impact of Jim Mather's statistics and proportions projected into the Highland economy of, say, 10 years' time? That sort of strategic thinking can only really come from the people who are on the ground and who know how things will develop.

Sandy Cumming: Yes, indeed. Our colleague Elaine Hanton heads up our renewable energy team. She may be well known to the committee and would be happy to give evidence at any time. We have identified the opportunity for significant high-value jobs, particularly in marine renewables, for some time now. We have been working to identify such opportunities and have been active in the forum for renewable energy development in Scotland. Hence, as Sandy Brady mentioned, the investment in EMEC.

We have a unique opportunity to realise potential in renewables. It ain't easy and we cannot do it alone as Highlands and Islands Enterprise but, in partnership with the private sector and government, we will be able to realise the maximum benefit.

Sandy Brady: We agree with Christopher Harvie on the potential scale of the renewables industry for the Highlands and Islands. We take lessons from history: the hydroelectric developments of the 1940s and 1950s were huge economic boosters at the time but, other than the supply of cheap energy, the long-term benefit was relatively modest in the communities that housed those developments. We made much more progress with North Sea oil throughout the 1970s, 1980s and 1990s and some of our communities still benefit from the take from that. Renewable energy can do even more for the Highlands and Islands. Besides the major direct employment opportunities, we feel that community benefit from generation capacity in our most remote parts, where that source is at its greatest, is one of the planks that will take those communities forward.

Christopher Harvie: My second point is linked to that. We all understand the enormous necessity of establishing good communications between the Scottish central belt and Inverness. I would like to know your views about modelling that scenario. Some civil servants have suggested to me the possibility of a dual-carriageway road plus a high-speed railway plus a gas tunnel connector as a spinal unit. Given the outputs that you expect, something of that sort will be necessary. That, again, is a question for longer-term planning.

My experience of Inverness has been quite favourable in what the American sociologist Robert Putnam calls the telephone test, because people phoned me back from Inverness even before I phoned them. Putnam was studying Italian regions and said that, if he phoned up Tuscany, they came back to him by return but, if he phoned up Sicily, he never heard again. So you win the Tuscany award.

However, Inverness has a reputation—even outside Scotland to a great extent—as a Tesco town. Could HIE promote alternative forms of marketing in some parts of the Highlands, even if only experimentally, to find out what the returns to the local community are of a much more tightly, locally organised retail network? That would have significance for Britain as a whole.

Sandy Brady: Transport is huge for the development of the Highlands and Islands. There has been massive investment in the infrastructure system over the past 30 years, much of it sparked by North Sea oil—the redevelopment of the A9 and the doubling of stretches of the railway track were done on the back of that. However, people's expectations continue to increase. If we are to realise those expectations, investment in the Highlands and Islands needs to match or exceed the investment that has been made in the past. That is true for all modes of transport. There is a case for investment in roads infrastructure—not

just in the A9 but in the A96 and the A82 as well. There are clear investment opportunities in rail, particularly in reducing journey times between Inverness and the central belt.

In island communities, ferry and air transport remain important. Initial work has been done on the air discount scheme and road equivalent tariffs for ferries, which will make a significant difference. Those schemes pose questions about capacity, because if they are successful, demand will increase. We regard that not as a problem but as an opportunity. As the economics of rail and ferry services improve, more people will use them.

In Inverness, we see the outcome of the rapid growth of a city. Some people in and around Inverness are discomforted by some of what they find around them, but there are people in Inverness who love the fact that there is much more buzz to the city than ever before. The city's growth has a considerable way to go. It is that growth that creates the opportunity to change the way in which the city functions. Because the population is growing and opportunities are increasing, the focus of the retail and service sectors will change. Opportunities are opening for people to come in who have not been in the city before.

As the population increases from 60,000 or so towards 100,000 over a generation, that will bring about growth in Inverness and create the opportunity for alternative forms of retail. As the city grows, the successful farmers market becomes more and more popular. It provides a model that can be extended to other Highland towns and communities.

Sandy Cumming: I do not have much to add. Inverness and many parts of the Highlands and Islands have made spectacular progress in the past 30 years. I live in Inverness, and the recently opened new Eden Court theatre and the soon-to-be-opened National Trust for Scotland centre at Culloden are exciting developments. Those things are symptomatic of a community in the Highlands and Islands that has confidence in its future. It has something to sell, and therefore our belief—I am an optimist—is that the future remains bright for the Highlands and Islands.

Christopher Harvie: What about electrification of the railway line to Inverness? After all, renewables will be delivered mainly as electricity. Norway and Switzerland have classic examples of highly efficient rail systems that are based on electrification. Inverness seems isolated in that sense.

Sandy Brady: The capital costs would be major—there is no question about that. If the project could be predicated on low-cost electricity, that would improve the case but, to be realistic,

the case for long-term investment still needs to be made.

The Convener: We are gaining evidence from various organisations on efficiency savings. Will the efficiency savings that apply to HIE come from management and administration or do they apply across the board in relation to project spend? Can you keep them or have you been told that they have to be handed back to the centre?

Sandy Cumming: I invite my finance director to answer that.

Forbes Duthie: My understanding is that the efficiency savings will come from management and administration. We proposed to the Government 11 per cent efficiency savings on our management and administration costs, and we await a response. My belief is that we can recycle the savings back into investment. That still needs to be clarified and finalised with the Executive, but that is the current position.

The Convener: You have not been told formally.

Forbes Duthie: Not categorically, no.

The Convener: Okay. We can ask the cabinet secretary about that.

Mr Cumming said that 50 staff might be lost in the coming three years. Does the 11 per cent include the loss of those 50 staff?

Forbes Duthie: Yes.

Dave Thompson: I am looking at the figures in the budget. The base budget of £77.8 million and the £14 million in resource cover make up the total of £91.8 million, which has been reduced from £103 million. On top of that is income of £16.5 million from property sales, loans and so on.

Sandy Cumming: Yes.

Dave Thompson: The position is similar in relation to the £118 million that you mentioned. That would include a similar figure of about £16 million.

Sandy Cumming: It was slightly higher this year due to extraordinary loan income and higher European income than we will enjoy in future.

The Convener: Gentlemen, thank you for coming along today. Our concern is simply that, in conducting an exercise on the budget, we do not have many figures to go on. That is why we pursued certain points with you and Scottish Enterprise.

We appreciate your evidence, particularly on the transfer to the new skills agency. As you might have noticed, Scottish Enterprise was unable to give us any such analysis. It is extremely helpful to the committee to have that analysis, so we thank you for that in particular.

We will have a two-minute comfort break before we resume with the panel from VisitScotland.

11:30

Meeting suspended.

11:34

On resuming—

The Convener: We move on to VisitScotland. We are pleased to have with us this morning Philip Riddle, the chief executive, and Riddell Graham, the director of strategy, partnerships and communications—that is quite a title, if I may say so. “Welcome to Scotland”, I should say, after my experience yesterday when I got off the plane in Glasgow, after flying down from Shetland, to be met with a sign that said, “Welcome to Scotland”—I thought that I was already in Scotland when I left home, but apparently Shetland has been annexed by Norway.

You might have heard some of our earlier deliberations. We are doing as much as we can to scrutinise the budget. Mr Riddle is welcome to make a few introductory remarks if he wishes to do so, and then we will move to questions.

Philip Riddle (VisitScotland): This is a great opportunity for us to address the committee on the outcome of the spending review. As you mentioned, I am joined by Riddell Graham, our director of strategy, partnerships and communications. As part of our decluttering, we will reduce that title. He is responsible for, among other things, our corporate plan for 2008 to 2011, which we will address today.

Everything that we do is done in the context of our ambition to grow tourism revenues by 50 per cent by 2015—I know that the committee will be considering that separately in its tourism inquiry, to which we look forward to contributing. The three-year income and expenditure forecast that we have supplied sets out our income and expenditure in relation to the new organisational structure. I will spend two minutes on the new structure, because it helps to explain the numbers. It reflects the outcome of the Scottish Government's review of the economic development agencies, which was announced in September, but it goes further than what was announced then.

The aim of the changes is to make VisitScotland more efficient and effective. We are not aiming to change what we do—that is important for our staff, our stakeholders and our customers. What we do revolves around marketing, business engagement in Scotland and quality assurance—those are the pillars of the way we work and they will stay. It is simply an exercise in being more effective and

efficient. We have already achieved £1 million of efficiency savings in the past couple of years, and we are confident that we will meet the Government's target of 2 per cent cash-releasing efficiencies each year over the next three years.

Customer focus is the principle that underlies our reorganisation. We are moving from six directorates to four directorates. The directorate of visitor engagement will be completely centred on the visitor as our customer—that is a dramatic change, because we will be joining up every contact with the visitor. Currently, most of our contact with visitors—our primary customers are visitors to Scotland—is through our marketing arm, which deals with United Kingdom, international and business marketing. However, we also have a great deal of contact with visitors once they are in Scotland, through our information and sales network. The big change is that we are integrating those two areas—it is more of a cultural change and a change in our way of working than a physical change.

We want to meet our visitors with one integrated structure that follows the customer journey—we want to contact someone in America through our international marketing, encourage them to book and to travel to Scotland, provide other information, meet them and give them information on the ground in Scotland, and then keep in touch with them when they leave. The ideal is that we will reach someone in America, for example, and entice them to come to Scotland, and then, when they walk into my local tourist information centre in Dunkeld, they can be met and addressed by name, because we will have followed their journey. We will then be able to follow up with an e-mail from Dunkeld TIC, to ask them whether they enjoyed their visit. The integration of that structure is an important change for us, which will give our information and sales network—I know that that is an area of concern to many—a fantastic new lease of life.

We will have another directorate beneath that, which will be about business engagement and will centre on Scottish tourism businesses as customers. The aim of that directorate will be to join businesses with visitors.

The third directorate will deal with strategic partners and will seek wider engagement to ensure that we involve Scottish tourism interests and the wider stakeholders, including government and the media, in our strategy for tourism in Scotland.

Last, but not least, we will have a directorate for corporate services, which will be centred on the internal customer. Slimming down to four directorates that are centred on four different customer groups will make us more effective and more efficient.

We are comfortable with the spending review. It has continued the progression of interest in and support for tourism, which we think is vital for Scotland and has been extremely important over the past few years. When I first took up the job, our core budget was £19 million. It is now £43 million, and the increase continues in the spending review. The growth in our budget indicates that successive Governments have recognised that tourism is vital to the country and that it is very important to invest in tourism for the future. Nevertheless, there is always opportunity to invest more in tourism. We would be the first to say that there are opportunities for productive investment and we would encourage more investment, by both the private and public sectors. Support from the Government has grown over the years and we see that continuing, which is very welcome.

I thank you for the opportunity to make those remarks. We are happy to take questions.

The Convener: I will ask about the target of a 50 per cent growth in tourism revenue by 2015, which I am sure we will come back to in future weeks. Can you show how the budget that you have been given by the spending review will assist in delivering that target?

Philip Riddle: We will be able to show how the budget, coupled with the changes that we are making in VisitScotland, will do that. There are, as we have said previously, five key drivers. Today, we are not in line to meet the 50 per cent growth target. It is achievable, but it will require intervention in many areas. The key factor is increased marketing—both increased marketing that we can do and increased marketing that we can leverage others to do. That is crucial, but it sits alongside increased investment, better market positioning, increased cross-selling of what we do and increased capacity utilisation. I know that the committee is familiar with those areas, so I will not go into the detail. I emphasise that those all have to happen—it is an integrated picture.

We need to increase funding for marketing progressively, as marketing is an investment rather than a one-off. We hope to secure more marketing funding every year between now and 2015. We do not want massive amounts and we have secured some additional funding this year—it is ring fenced for certain projects, but it is still additional funding. We will also release funding into marketing. The big emphasis in our restructuring will be to release over the coming years funds that are not directed towards outwards marketing or marketing to visitors when they are here. We anticipate that there would be no reduction going forward, despite efficiencies. Any money that we release through efficiency will go into increased marketing. That is another way in which we will leverage funding. We believe that if

we do that and get the other drivers in place, we can meet the growth target.

The Convener: As you said, VisitScotland is now structured in such a way that it has four directorates. How does that sit with the structure of six regional areas, for want of a better description, with which your organisation is now being asked to comply? I do not mean that in a pejorative sense. One of the regions is the Highlands and Islands, whose geography I would have thought presents quite a challenge. Are your efficiencies taking that into account? Are costs attached to the new structure with which VisitScotland is being asked to comply?

Philip Riddle: We are comfortable with the new structure. We will organise around the six regions—that will not cause us major problems. It will give us the opportunity to do some rationalisation on the ground, but the aim of the rationalisation is only to make us more joined up in what we do. For example, we do not intend to have a major programme of closure of offices or tourist information centres—far from it. We envisage that we will have six regions and that each region will still have at least one area office and possibly more. We will keep as many area offices as we think is appropriate for meeting and dealing with local businesses and stakeholders. There will be no massive change. However, we will look more intensely at the idea of shared facilities, which has some potential, and shared services. I sometimes think that the benefits of shared services are a little exaggerated. I do not envisage there being a massive breakthrough in shared services, but the possibilities can undoubtedly be examined and something can be done.

There will be efficiencies as a result of establishing those regions, which we will use as administrative areas, but it will not necessarily change anything on the ground. Every region will have its own solution. For example, the solution for the Highlands and Islands, which you mentioned, will be quite different from that for a more central area such as Edinburgh and the Lothians. Our internal organisation will cater for that.

11:45

Brian Adam: You have rightly pointed out that VisitScotland's budget has increased significantly in recent years, partly as a result of invidious comparisons that had been made with Ireland's success in marketing itself. Perhaps you might want to comment on comparators such as VisitBritain, because, as I understand it, in the final year of the spending review, VisitScotland's marketing budget, including funding for special events, will exceed that of VisitBritain. How will the

funding for specific events allow us to achieve the overall objectives of driving business up and increasing revenue by 50 per cent by 2015?

Philip Riddle: I have to say that we prefer to be compared with organisations that are on the way up. You are right that VisitBritain's budget has been cut not just in real terms but in money-of-the-day terms, which will significantly limit its ability to provide support. However, it is approaching the situation very professionally and will still do a good job.

Successive Governments in Scotland have, quite rightly, started to treat us more seriously and have recognised the importance of tourism as an industry through ensuring consistency of funding. We are often compared with organisations such as Fáilte Ireland, which occasionally receives more money than we do. However, a very important aspect of the Irish example is consistency of investment, which we have seen in Scotland over the past few years and which I hope will continue in the years to come.

On the question of specific events, one of the main growth drivers for reaching the 50 per cent target is capacity utilisation. We are all aware that Scotland is not full the whole year round; although some parts do very well, some do not do so well, and we have certain what might be called natural advantages—such as our weather—that not everyone sees in that light. Events and festivals are crucial because they ensure that Scotland is seen as a destination where, regardless of the weather, there are things to do. Events might be small or large but, as long as things are going on, it is relatively easy to persuade people that Scotland is a great place to visit, because they do not have to worry so much about the weather or other factors. In that respect, looking way ahead, I think that the Commonwealth games and the Ryder cup will be fantastic. Coming closer to home, I think that the year of homecoming 2009 will be a great and different kind of event which, as we have discussed, will focus on the engagement of Scots with other people around the world. The funding is not yet in place for the Commonwealth games—that is a major and separate issue—but the indicative figure for the year of homecoming 2009 is an additional £5 million, which has not been included in the budget. We have also secured funding for the Ryder cup, for which we have to start paying now.

Marilyn Livingstone: You said that capacity building is a priority. Since its inception, the committee has heard that one of the biggest challenges for tourism businesses is attracting the appropriate skills. What plans do you have under this budget to encourage more people to have a career in the tourism industry? How can you ensure that they have the required skills? An issue

that was raised with us was the welcome that visitors to our country receive. A huge part of that is the people who provide the welcome. How do we attract new people into the industry and ensure that they have the appropriate skills? How do we support people who are already in the industry with their personal development? The industry sent us a strong message about those key inhibitors.

Philip Riddle: That is an extremely important topic, which is integral to our ability to make progress and grow.

Although VisitScotland does not have a direct responsibility for providing training or for addressing the development of staff, we realise that those are important issues, so we address them in much of what we do—for example, through raising the profile of the industry and through engagement with wider stakeholder groups, which is sometimes just as important as the provision of training. I will ask Riddell Graham to talk about some of the wider engagement that we undertake, which extends beyond tourism businesses to the general public and the media, all of which is relevant to the topic that you raise.

Riddell Graham (VisitScotland): Your point is well made. If we can utilise our present capacity—in other words, if we can have all-year-round tourism, particularly in rural areas, where it tends to be much more seasonal—the opportunity for people to be employed all year round will be enhanced, with the result that they will have the opportunity to enhance their skills.

We tend to influence that process through our work with Scottish Enterprise and HIE, where we identify training opportunities. We have a separate arm's-length company called Tourist Board Training, which identifies the marketing opportunities that we as an organisation are developing and considers skills that are needed as a result. For example, in genealogy, we have been highly successful in identifying the opportunities that are needed at ground level for the industry to pick up, to enhance the experience that visitors have once they get here. Through our sectoral development work, we link our marketing opportunities to training opportunities and encourage the enterprise agencies to pick up those areas that need to be picked up.

Marilyn Livingstone is right. The most significant factor is the welcome that people give. The convener mentioned the "Welcome to Scotland" slogan. Someone who was interviewed on a news bulletin last night hit the nail on the head when they said that it was not about the message that you get, but whether people smile and welcome you. Customer service skills are crucial. We can have the best facilities in the world, but if we do not have the right people working in them and

providing a welcome that encourages people to come back, we will not make progress. As Philip Riddle has said, our role is less about delivery and more about influencing the people who are responsible for delivery and ensuring that their activity is targeted.

Through consumer research and other activity, we have identified that new media and information technology will be even more important in the future. We are encouraging the industry to take those areas much more seriously than it has up until now. People must skill themselves up to maximise the benefit that they can get from new media and IT as they develop.

Our role is very much about influencing people, listening to what the customer tells us, ensuring that the industry is aware of what the customer needs and ensuring that the skills and training that are provided match that.

Marilyn Livingstone: More role models could be helpful in attracting people into the industry. What is your view on that? Changes are being made to the structures of Scottish Enterprise and HIE. With the move to the skills agency, what role do you see your organisation having in the new structures?

Riddell Graham: You are dead right about role models, because success breeds success. People aspire to be like someone who is successful. The more case studies that we can provide of successful businesses and of entrepreneurial individuals who have been successful and made a difference, the more we will be able to inspire people to follow suit.

You make a good point about structures. We are not aware how the new skills body will develop or what our relationship with it will be. At the moment we influence such matters through one of the tourism framework for change groups, which is looking at skills. It includes three members of our team—one from the quality side, one from Tourist Board Training and one who is involved in our wider engagement with businesses. Members of that group are trying to influence both Springboard Scotland and the careers agency.

In future, Springboard, as a sector skills council, will have a key role in ensuring that that delivery happens. We are sitting on the edge, waiting to find out what the new skills body will look like and how it will work. We hope to have a pretty major input, from a tourism point of view, into the work in the future.

Gavin Brown: With a previous answer in mind, I put on my best smile and say to Mr Riddle and Mr Graham, "Welcome to the committee". I have two main questions, which I will deal with separately. First, I am encouraged by Mr Riddle's comments on localism, if we can call it that. At present, we

have about 100 tourist information centres and 14 main area offices. How many information centres and area offices will we have in five years?

Philip Riddle: To show off, I can supply the figures. We have 109 TICs, 76 neighbourhood information points and 136 tourist information points, which are not manned. We will have fewer of those in five years, but that is because our customers are evolving and changing, so we need new things. The exciting change that we want to happen in our local provision of information is a conversion to more outgoing local marketing. We have a legacy of relatively static information provision, which was appropriate for many years. It is very nice and we have tremendous people who are extremely committed and knowledgeable, but they tend to wait for visitors to come to them. They wait for people to come to the TICs or to use the tourist information points. The future is about getting out to visitors, because people have less time and less interest—internet search engines have revolutionised the way in which people get information. We have a great asset that we are not using fully. We want to get those people out and about among visitors, giving them information, as well as the smile and the welcome that are so important.

In the future that I envisage, there will not be many fewer centres, but I would like our people to be in hotels, on buses and in town centres, meeting people, talking to them, taking them on walking tours and guiding them round. Personal engagement is valued and that will not go away—it will become more important. However, the need to go somewhere static to collect information—no matter how good or well presented—is on the decline, because people cannot find a parking place near a TIC or they are only on a short break and can get the information from the internet or somewhere else.

The nature of the service will change and the physical network will change a bit, but not radically or overnight. We will still need centres, but I hope that they will be more like business centres where local tourism businesses can meet our people and visitors. Perhaps they will also be used more as community centres, with entertainment provided. A lot can be done to leverage the service to improve what we offer our visitors.

Riddell Graham: We have shared that vision with our staff and it is encouraging that they are really up for the changes. They realise that visitors and their demands are changing, so it is no longer right to have a building with a desk and to expect people to walk through the door. Our staff are up for the challenge of engaging with local tourism businesses to deliver the information service more efficiently and effectively by getting out there and meeting people. The aim of putting visitor

information at the heart of our marketing effort is the most exciting feature that our vision for the future offers. The staff see that, too.

Gavin Brown: There was some good stuff in there but, just so that we are clear on the record, let me paraphrase what you have said to ensure that my understanding is correct. We have 109 TICs at the moment and you anticipate that there will be fewer in the future, but not many fewer. Is that a fair summary?

Philip Riddle: That is fair. One element that I did not mention is that much of our work locally is done in conjunction with local authorities, with which we have a healthy partnership. Some of the recent reductions in service have happened because of reductions in local authority funding. Most of the centres are jointly funded. We believe that the investment is well made by local authorities, but we realise that they are under financial pressure, which is why their funding for tourism is under pressure and is sometimes reducing. Therefore, in partnership with local authorities, we are considering initiatives that sometimes involve closures, although they sometimes mean expansion elsewhere or moving a centre. That is a factor; it is not really a part of our overall strategy, but it will affect it and it might also mean a bit of a reduction in numbers.

12:00

Gavin Brown: You stressed how important the marketing side is. Is it fair to class that under visitor engagement in the budget headings that you have given us?

Philip Riddle: I beg your pardon; I meant to talk about how we did those numbers. Anyone who has seen our numbers in the past will find it difficult to make a comparison. Visitor engagement, which is now the big directorate in this organisation, includes marketing and information and sales in one group. Roughly half of that is the money that we used to spend on international and UK marketing, and the rest is the money that is deployed throughout the network in Scotland, including TICs and quite a lot more.

Gavin Brown: To summarise, last year we had good strong results in international tourism but not in domestic tourism. Will the marketing spend change in any way because of those two results?

Philip Riddle: We are always adapting. The spend is not going to change radically. Statistically, last year we broke even; it is difficult to say that we went down or up overall, but you are right to say that there was a big switch from domestic to international tourism. We have consciously tried to switch to international business to get a better balance. We have moved the ratio on the revenue side from 85:15 to 70:30,

partly because UK business has gone down and partly because international business has gone up. We would like to maintain that. This year's trend shows that the value of tourism from the UK is going up and the value of international tourism is going down. I am sure that we will discuss the many reasons for that at a later date.

We will not be shifting our marketing radically, but it is good to be diverse. We should always keep up the investment in our core markets because sometimes they go down and sometimes they come up. Undoubtedly, the United States market is under pressure just now. We are not going to reduce our marketing there, but we are not going to radically increase it either. We have to maintain a fairly steady investment in all those markets.

George Foulkes (Lothians) (Lab): Convener, the clerk tells me that as this is the first time that I have substituted on the committee, I have to consider whether I have any interests to declare. I have been thinking about it carefully and, as far as I am aware, I do not. I did think that because the House of Lords is a major tourist attraction, I might have to declare that, but so is this Parliament, so I do not think that I do.

Forgive me if my question has been asked before; as I said, I am substituting for one of my colleagues on the committee. I presume that most people who come to Scotland have never heard of or had any contact with VisitScotland, or indeed VisitBritain. How do you measure what added value or additional effect the organisation has?

Philip Riddle: From our marketing, we measure the organisation's effect as scientifically as we can all the time, without overdoing the resources. We follow up on every campaign. We sample those with whom we have been in touch and we measure whether people have acted on the information in the campaign, and then we extrapolate from that.

It is easier to follow up direct campaigns such as direct mail or e-mail, but we take samples during our general advertising on television and in cinemas. If we run television adverts in the central area of England during a certain period, we will run a sampling campaign. We will measure people's propensity to visit as well as the number of people who have visited.

Our marketing is about changing the mindset so that people think about coming to Scotland. It does not necessarily always result in someone making a trip that year or even the following year, but we are trying to change their mindsets. To measure the propensity is to measure the more emotional side, and we do that as well as estimating the number of actual visits. For example, our international campaigns achieve something like a

25:1 return; that is not profit but revenue. For every pound we spend on an international campaign, we estimate revenue of £25 in return.

George Foulkes: But there must be a lot of people, perhaps millions, with whom you are not in contact—people who have never heard of you. I am thinking of people who come up for the festival or to play golf, and who do so regularly. By definition, you are contacting only the people who have contacted you.

Philip Riddle: We are proactive; we are going out there and contacting people. However, you are absolutely right: last year we had 16 million visitors and, if we had a way of asking those visitors, I suspect that the majority would not have come as a direct result of something that we had done. However, we know that what we do has an impact and results in more visitors than would normally come.

It is difficult to measure how many would come without us, and I hope that we do not do an experiment, because that would mean abolishing VisitScotland for a couple of years to see what effect that had. However, we are confident from our measurements, campaign by campaign, that we are adding a large number to the number that would come to Scotland anyway.

Scotland is a fantastic tourism destination. People have been coming for hundreds of years and they will be coming for hundreds of years into the future. However, we are conscious that our work—although an important part and not just on the fringe—is not the entire industry.

George Foulkes: But do you see what I mean? If you are spending £70 million a year, you have to justify it in terms of added value. People come here for all our great attractions—and I should have mentioned the Keith cattle show earlier—which they hear about through friends and contacts. Are you doing any surveys, through some kind of polling agency, that go beyond the people who have been in touch with you or have come through the network? Have you found out whether you really are having an impact? Most people who come to Scotland come from south of the border, do they not?

Philip Riddle: Yes—but perhaps I am not explaining myself very well. With all our marketing campaigns we do research and we discover the return on our investment. The results vary. We can divide the research into segments and see whether our marketing is acquiring new people who have never come before or whether it is retaining people who have come before. Retention and acquisition are quite different.

We always go for value, not just for numbers of people, but we get a return on investment of around 25:1 on retention. The figure would be

lower on breaking into new markets, where we would expect around 10:1. We take all those measures and then average them—the averages are less useful but we use them for business planning. We also measure the propensity to visit, which is quite high in England and which can move by percentage points. We measure through general polling of people who have been in a certain area or who have been exposed to our advertising in some way over a certain period.

We follow up on everything and measure the value added. The great thing about tourism—and a reason why we make a strong case for the value of investment in tourism—is that we can see clearly and quickly what happens if we add £1 of investment.

The Convener: Before I invite further questions, I remind colleagues that, although this evidence is very interesting, we are probably straying into areas that we will cover over the next few weeks. Please bear it in mind that we need to concentrate on the budget.

Christopher Harvie: Going directly against that advice, of course, I wanted to ask the witnesses what they intend to do to celebrate in 2009 the 250th anniversary of the birth of Robert Burns.

Philip Riddle: Lots and lots. There are three crucial elements. First, we must engage with people to get the message across about coming to Scotland, which is our big motivation. We have a big campaign to mount, which we will integrate into our international marketing. We will also target the diaspora to stimulate interest and suggest that now is a good time to come back to Scotland.

Secondly, we have to mount a big campaign in Scotland to energise people. We were talking earlier about the need to make our campaigns personal. We want to make contacts.

The third element is programmes of events. There will be signature events through EventScotland, supported events and rolling events. However, just putting on events is not enough. Many people in the diaspora who know about Scotland will come back anyway or will say, “Well, I can come back to Scotland any year to meet my relatives.” We therefore have to have supported events but we have to make things personal. We have to have engagement, locally and internationally, between communities, towns—

Christopher Harvie: Let me interrupt you there. I do not want to drift off into other areas—as Tavish Scott knows only too well—but let us look at the logic of such events. When Germany organised the Goethe-Jahr in 1999, it was such a blockbuster that Goethe’s house in Weimar had to be replicated because the original attracted many more visitors that it could accommodate. As the

whole thing was done on a national basis, it achieved the effect of roughly doubling the number of inquiries about Germany as a tourist destination.

When I look at Scotland from the standpoint of German tourists—not only are they our second largest group after the Americans, they spend a lot and they engage considerably with the country in a way that I am not altogether sure is the case with the Americans—I see it as a necessity for VisitScotland's operations to increase its representations abroad. However, there are problems with that because the British Government has cut something like 70 per cent of its commercial consulates in Germany over the past couple of years. The fact that such lively centres of information about Scotland have gone is a problem. That is one issue.

Another issue is that what we see as a tourist attraction is not necessarily something that we want to get our hands on if it does not attract everyone else. What we think of as the great Scottish breakfast is regarded by the Germans as a heart attack on a plate.

The third issue is a matter that we ought to devote cash to in the longer term. The most expert tourism entrepreneurs in Europe—the Swiss—are faced with the disappearance of their main attraction—

George Foulkes: The cuckoo clock?

Christopher Harvie: No, the snow. With global warming, the Swiss winter season has dropped by a third. Going by our briefings, we need to win over tourists like the Swiss do if we are to become a tourist destination. The Swiss have managed to keep up tourism on their lakes on a scale way beyond anything that we have achieved. We can do that only in partnership. I would be interested to hear people's views on that.

The Convener: Three brief answers to those questions would be greatly appreciated.

Philip Riddle: On the German issue, you are right that representation overseas is under pressure. The good news is that modern technology makes it a lot easier to contact people online and to build relationships that previously required a physical presence. There is a good side to that.

Our world is built around envisaging what people want. The important thing is not what we want to sell but what people want to buy. Too often in Scotland, we get trapped by what we like and what we want to push, rather than what people want from us. We do a lot of research on that and that governs the rest of what we do.

I know Switzerland very well and I agree that we can learn a lot from it. Switzerland is far from

perfect, but it has a market position of quality and value that Scotland can emulate. We could deliver a similar sort of value and variety. Switzerland's tourism industry is built around not just skiing, but year-round activities against the backdrop of magnificent scenery. We have magnificent scenery and great people, so we could do at least as well.

Christopher Harvie: We could also attract investment from them, which is crucial.

Lewis Macdonald: I will go back to the budget.

Our best estimate is that the real-terms impact of the budget changes over the next three years will be a reduction of about 1 per cent in VisitScotland's income from the Executive. Is that in line with your understanding?

Philip Riddle: In real terms, yes.

Lewis Macdonald: Within that, the amount that will be spent on visitor engagement—according to the figures in the VisitScotland submission—will also be subject to a real-terms reduction over the period. In that context, what impact will those real-terms reductions have on the budget for marketing and on what you can do with marketing?

Philip Riddle: That topic also came up in the earlier discussion with HIE. One cannot plan for additional funding. We have tended to work with constant budgets in tranches for many years but, by presenting a good business case, we have always been able to increase our marketing spend. For example, we have received an additional £55 million over and above our core grant over the years since 2001. It is reasonable for the Government to invite organisations to approach and make their case for more money, if they have a good one to make. We intend to do that, proving each case individually. We have a solid core grant, and we feel that there are opportunities for very good investment in tourism in the future. We will be making our case.

12:15

Lewis Macdonald: So your core marketing funding will remain the same in cash terms but go down in real terms, and you will continue to bid for additional funding. That is similar to what we heard from HIE. Is that right?

Philip Riddle: Absolutely.

Lewis Macdonald: You mentioned the arrangements for the Ryder cup and the fact that some additional funding has already been allocated for that.

Philip Riddle: Yes.

Lewis Macdonald: What is that sum, and where does it stand within your figures? Does it come under the visitor engagement line?

Philip Riddle: In the current budget, that comes under EventScotland. It is just less than £2 million. Actually, I think that it is £1.5 million per annum within the EventScotland budget of £7 million. It falls within the VisitScotland budget, but in that line.

Lewis Macdonald: So that increase from £5.5 million in the current year to £7 million for EventScotland in the following three years is all Ryder cup funding, essentially.

Philip Riddle: Yes.

Lewis Macdonald: You mentioned that you had to pay that back in some way. Did I understand your earlier answer correctly?

Philip Riddle: The Ryder cup funding?

Lewis Macdonald: There was some mention of setting the Ryder cup funding off against some other heading, I think, or did I pick you up wrong?

Philip Riddle: I was perhaps not clear on that point—the funding is clearly there within the EventScotland budget.

Lewis Macdonald: The capital line took an increase in 2008-09. It was a modest increase, but I wondered if there was any particular explanation.

Philip Riddle: I guess that there was perhaps a little oversight in the past. When we integrated with the 14 area tourist boards two years ago, we did not increase our capital budget, but our stock of capital assets grew significantly, of course. There has now been a timely recognition of the need for money for our capital assets.

The Convener: It is the new roof budget.

Dave Thompson: I am looking at the lines for your commercial and stakeholder income. The increase over the period 2007-08 to 2010-11 seems relatively modest. It is about £700,000, or 3 per cent over the three years. I imagine that that increase will be well below inflation. Is there any particular reason for that? Will you be making efforts to increase your income?

Philip Riddle: Absolutely. We are making efforts to increase our income against decline. There are three elements that we predict will be under pressure. I have already mentioned local authority money, which comes in the line to which you refer. We recognise that local authorities will be pressured.

The second element is European money, which is also in that line. Riddell Graham might wish to comment on this further. We are optimistic about the outlook for European money, but that is against a backdrop of less European money being around for projects. We are hopeful of securing a good deal of European money, but we must all accept that it is on a downward spiral.

The third element is retail income through tourist information centres. Under our strategy, we anticipate fewer people coming into those centres, as we try to move out the way towards people. That will mean that our retail income from TICs will probably decline a bit. That retail income is not fantastic anyway, in net terms. Those centres are there more to provide a service to customers, so that drop in income does not hit us tremendously badly overall. However, it will still come out of our income.

Riddell Graham: Having been involved with area tourist boards in a past life, I know how important European funding can be to enhancing the quality and quantity of the marketing effort at a local level. We have decided to consolidate our experience in that regard. We have already submitted seven bids for the programme as it kicks in next year—three in the Highlands and four in the lowlands and uplands area. We have already established positive relationships with the programme monitoring committees—PMCs—in the Highlands and lowlands and uplands areas. We are confident that most, if not all, the bids that we have submitted will enhance our marketing activity. Interestingly, given comments that were made earlier, many of those activities will be in support of the homecoming event in 2009. We recognise that that is a key source of revenue for us in the future and want to maximise its impact, not just on VisitScotland but on tourism and on supporting the 50 per cent growth ambition.

Dave Thompson: I seek your view on how two factors may impact on our ability to achieve the 50 per cent growth target by 2015. One is the additional investment that will be made through the budgetary process in areas such as transport and social enterprises, some of which will be tourism related. The reduction in business rates will affect many small businesses, many of which will be tourism related.

The second factor is the winter festival that is planned from St Andrew's day to Burns day, which will start to extend the tourism season. One of the biggest problems that we have is getting an all-year-round season, so that businesses can keep on quality staff and pay them well.

Philip Riddle: The backbone of tourism in Scotland is a myriad of small businesses. Anything that is done to help small businesses through rates support is welcome and will help those businesses. You mentioned transport infrastructure, which is crucial. The future is about getting people to come to Scotland and getting them around Scotland. That will help to increase revenue generally; it will help capacity utilisation, in particular. At the moment, the market trend tends to be weighted in favour of the cities, because the growth area is the short-break

market. Increasingly, people go to cities for short breaks, just because cities are transport hubs and it is easier to get there.

Scotland has an opportunity, which many countries do not have, to make our rural areas more accessible from the cities, because they are not that far away. One of the joys of our cities is that we can get out of them quickly, if we want to—not that we all want to—to rural areas. The transport network for getting out of and between cities will be crucial. The short-break market is centred on cities because they are easy to get to, not just because of what cities have to offer. Many more people would look to incorporate rural areas in a short break if they were easy to get to.

I agree with Dave Thompson about the winter festival. We see the benefits of all-year-round tourism in Edinburgh, to which people come and where events are held all year round. We want the same to happen throughout the country, which is not impossible. Undoubtedly, a key component of such a strategy is a programme of events and festivals. I emphasise the word programme, because although individual headline events can attract people, we really want people to have the attitude that something is always going on in Scotland. We get that message across when we have a linked programme such as the winter festival, in which different things happen in different places. That will persuade people to come, because they will be confident that there will be events that they will enjoy.

The Convener: In response to an earlier question about the growing market and how you are balancing spending, you made a point about international visitors. Clearly, the air route development fund is going. Is there anything in the marketing budget for a potential replacement scheme, given how important international destinations are for attracting visitors to Scotland?

Philip Riddle: Not specifically.

The Convener: Do you hope to work on a bid of the kind that Highlands and Islands Enterprise makes to Government at certain times of the year?

Philip Riddle: Absolutely. There is already a proposal on the table that has been debated. The route development fund was a great success, but we understand why it has had to be curtailed. Given the reason that it has been curtailed, we cannot simply substitute another scheme for it. However, we should address the issue, because the fund was a good model and we would like to find a way of continuing it in an acceptable and legitimate manner.

The Convener: Good. I am sure that we will come back to that.

I thank Mr Riddle and Mr Graham for coming

along this morning—or this afternoon, as it now is. We look forward to hearing more from them on tourism more generally in the coming weeks and months.

We move to the final panel, which is a Convention of Scottish Local Authorities delegation led by Councillor Alison Hay, who speaks for COSLA on regeneration and sustainable development. She is joined by James Fowlie, who is the team leader on environment and regeneration, Barbara Lindsay, who is COSLA's strategic director and David Valentine, the head of economic development at Angus Council. He also represents the Society of Local Authority Chief Executives and Senior Managers and the Scottish Local Authorities Economic Development Group. We will give them a moment or two to sit down.

I welcome the witnesses warmly and apologise for how long they have waited. Whether they found the morning interesting or otherwise is something that they may wish to keep to themselves until we finish.

It would be helpful if Alison Hay would give a few introductory remarks. I imagine that she can gather from the evidence that we have taken from Scottish Enterprise and Highlands and Islands Enterprise that we would be particularly interested in the relationship that COSLA is developing on the budget for the transfer of functions to local government from the enterprise networks. From a budgetary point of view, that is what we want to hear about this morning.

Councillor Alison Hay (Convention of Scottish Local Authorities): If you will allow me, I will give a little background on where we are coming from. I have to say that I found this morning fascinating—particularly the bit about the cuckoo clock. We welcome the opportunity to give evidence and hope that you will find it useful.

With the signing of the concordat between local government and the Scottish Government, there is for the first time a firm commitment from both spheres of government to build a relationship of respect, partnership and trust. The concordat underpins funding for local government for the next three years and aligns the Scottish Government and COSLA to a new and more democratically accountable means of providing services.

The negotiations with the Government were based on our costed understanding of our spending requirements and took into account an expectation that the resources that would be available to the public sector in Scotland would make the spending review period extremely tight. In addition, our participation in the negotiations was underpinned by a desire to achieve a

satisfactory outcome on a number of non-cash elements—that is quite important. They can never be regarded as replacements for adequate cash sums, but the non-cash elements are nevertheless a significant achievement within the overall context of the package. In short, our primary objective was to negotiate a package that was balanced between securing maximum resources and the greatest number of cash gains. The cash sum of £34.7 billion for local government over the next three years is tight and is acknowledged as such by the Scottish Government.

We are determined to deliver a satisfactory outcome on a number of the non-cash issues, many of which have long been held by COSLA to be signals of respect and commitment to local democracy and a more equal relationship. Those issues were the removal of structural reform, a statement on the position of local government in the governance of Scotland, progress on a single outcome agreement and joint accountability, a reduction in the level of ring fencing, an agreement for councils to be allowed to retain the resources that are released by efficiency work and a commitment to regular meetings between COSLA's leadership and the Cabinet Secretary for Finance and Sustainable Growth.

We are not yet sure about the budget that will transfer to us from the enterprise networks and the changes that are about to occur as a result of the transfer of functions from the networks, so we are presently in negotiation with both sides—HIE and the Scottish Executive—to enable us to take account of the budget and changes, come to a conclusion and take that conclusion to the Government as a basis for negotiation. I am not sure whether that is what you want to hear, but sums are not exactly at the forefront of our negotiations at the moment.

The Convener: Thanks for that. Highlands and Islands Enterprise told us helpfully that it estimates that the figure for the transfer of functions from the enterprise network for the seven local authorities in the HIE area would be £2 million. Do you recognise that figure? If that is the figure for the Highlands and Islands, there must be an estimate for the rest of Scotland.

Councillor Hay: We have not got down to talking serious money yet. There are a number of points about what is transferring and what is not transferring on which we have not received clarification. I do not recognise that figure.

12:30

James Fowlie (Convention of Scottish Local Authorities): The key point for us is that we are looking to secure the whole business gateway, including the central functions. There is a cost for

the contracts for the SE area, which David Valentine will provide, but we do not have the figures for the central functions or for HIE.

David Valentine (Society of Local Authority Chief Executives and Senior Managers and Scottish Local Authorities Economic Development Group): As I understand it, the figure that Scottish Enterprise indicated to us for the transfer of contracts for the business gateway is £10.5 million. There is an issue there for us, because that is based on the contracts that were entered into on 1 October. As most people will know, the jury is still out on whether those contracts will perform. I do not say that to criticise the contractors, but we have a new model, which is unproven. We have requested information from Scottish Enterprise about what has been spent on the business gateway in recent years. At the very least, we will seek a contingency agreement with the Scottish Government in respect of what will happen if the contracts—not necessarily through any fault of the contractors—fail to deliver.

As James Fowlie said, a prerequisite for us is that we bring with the gateway contracts the central performance management unit, the responsibility for marketing—and the budget that goes with it—and the fulfilment centre. Without that, the transfer is really not a viable proposition for local authorities, because we would be nothing but a postbox. We would not be responsible for the vision or leadership and strategy; we would be responsible only for delivering contracts that, as I am sure members know, have already been entered into for a period of three plus two years. We would not seek to upset those contracts. The budgets would have to transfer or we will be inadequately resourced.

The other side is regeneration, of which we do not have a definition. Understandably, Scottish Enterprise has its own perspective, which it has shared with us. It has also shared with us its rationale for its definitions of national, local and regional. We have not had any figures yet, but my understanding is that the budget could be around £100 million in Scottish Enterprise. I am sure that there will be differences of opinion about that. Until we see the figures, we do not know. We have been promised an open-book approach over at least five years, project by project and area by area, so that we can gain understanding and enter into a dialogue about what should be retained centrally and what should come over to local authorities. I am sure that we will have all sorts of discussions to define local economic development, as opposed to the national priority work that needs to be done. That is the generality of the situation.

The Convener: That is very helpful. We are grateful for that evidence. You are asking for the central functions to be transferred. What precisely

are those central functions and where would they sit? Would they sit in each of the 32 local authorities? I see that you are shaking your head. With which body would they sit?

David Valentine: We have had some discussions about that. The context is that although 1 April has been mooted as a date for the whole exercise, we understand from Scottish Government officials that that date is not sacrosanct. We feel that the central unit should be brought over even earlier than that, so that the hearts and minds of the people who are engaged in that work can come with it and those people can work with us for a successful outcome.

The Convener: To where should the central unit come over?

David Valentine: There are a number of possibilities, all of which are doable. We have not had a dialogue about it, so I would be running ahead if I was to answer.

The Convener: I quite understand.

David Valentine: Given that we do not have the information, we have not had an opportunity to discuss the matter properly. One option is that COSLA could host the function. Another option is that one of the larger authorities might act as host and lead on that function. Another is that the 32 councils, organised on a regional basis, could be part of an executive of a limited company or some sort of stand-alone organisation. All of those things are doable. That is possibly the least difficult part of the whole exercise.

To come back to the 32 local authorities, even before the announcement was made when the prospect of transfer of functions was mooted, we were already saying through COSLA that none of the 32 councils expected those functions to come to each council. We will have to broker discussions within the six regions about how it might be done. Should it be on a shared-service basis or would there be one lead authority? We are signed up to considering a number of ways to do it, and to brokering those among the local authorities. It will certainly not be a case of 32 councils doing 32 separate deliveries.

The Convener: That is helpful; thank you very much.

Marilyn Livingstone: You will have heard the questions that I was asking earlier. One of the big issues is that with functions and budgets goes authority, which is crucial to the success of all the different strands. I am keen for the committee to receive a progress report on how the project is panning out. John Swinney has made his intention clear and I would like to ensure that that is what comes out.

I have a couple of specific questions. In some ways, the role of business gateway is quite clear

because of what you want to achieve. I am quite concerned about how local economic development and regeneration are going to pan out. HIE told us about a task force that was set up to consider all that. Is there a Scottish Enterprise task force to do the same job?

Scottish Enterprise talked about urban regeneration companies, which are important, but a lot of regeneration work is done outside them, such as town centre regeneration and so on. Can you give the committee more understanding of how the budgets, people and so on will be transferred, and whether you are happy with how that is currently panning out?

Councillor Hay: I will make a general statement on that and James Fowlie can give you a bit more detail. It is important to say that any asset that is associated with the business gateway and regeneration should be transferred with full funding—otherwise, local government will not be able to cope. Forums and discussions are ongoing, some of which are at officer level, so I will ask James Fowlie to say some more.

James Fowlie: I have nothing much to add to that. Work streams are in place and the work has begun. The meetings need to develop some more information, but we are keen to report back to the committee.

Councillor Hay: We are quite happy to keep the committee updated and to share information as we approach a conclusion, if it would be helpful.

Marilyn Livingstone: That would be helpful.

The Convener: Marilyn Livingstone raised an important point. David Valentine talked about £100 million in Scottish Enterprise—that is a big number and I imagine that a fair old amount of negotiation is going on over it. Who is facilitating that? Is it the Scottish Government or will there be a straight meeting between COSLA and Scottish Enterprise about that amount?

James Fowlie: There is negotiation with the Scottish Government over the amount of funding and function that will transfer. Scottish Enterprise clearly has a view on what it currently provides; we have to establish what we believe it currently provides and what we should provide. That discussion is going on at the moment.

David Valentine: Until we get the information from Scottish Enterprise, we cannot do the thinking that we need to do in order that we can have a meaningful dialogue. We will inevitably get involved in a discussion in which we will put forward our rationale for distinguishing between local and national. The way in which we model that distinction will be important. I am referring to anything whose purpose is not primary business growth and is not concerned with the priority

sectors, and to activities for which the majority of jobs that are created will fall within one local authority boundary. There are ways in which we can articulate and define local economic development. In the end, however, we will have to gather the information and interpret it, and we will need to put forward our view about what resources should come to us that are not national. Essentially, our stance is that once what is national is defined, everything else should come over to us. Obviously, how we substantiate and justify that will be complex.

The Convener: I am a bit puzzled. In fairness, the Cabinet Secretary for Finance and Sustainable Growth made a statement about the enterprise networks, including your functions, in the third week of September. It is rather later than that now. It sounds like there will need to be a heck of a lot of work done to get those issues nailed down before the end of the financial year—never mind your setting local authority budgets.

Councillor Hay: Yes. As has been suggested since September, and as was repeated this morning, we did not know what was going to happen until we heard the words come out of the cabinet secretary's mouth. Efforts were made to negotiate and to define exactly what each side meant. That is still not clear.

The Convener: I bet it is not.

Councillor Hay: We need to take some matters back to the cabinet secretary.

Peter Peacock: Following what Lord Foulkes said earlier, I do not think that I have any declarable interests. I did not want to err by not saying that.

Alison Hay spoke about the concordat and the virtue that is being made, particularly on the local authority side—for reasons that I understand—of there not being ring fencing. I want to be clear: will the business gateway money remain ring fenced or will local authorities be free—apart from in respect of contractual aspects—to spend the money on other things?

James Fowlie: The intention would be to maintain the existing business gateway service. We are completely committed to continuing to provide a high-quality service across the country—and indeed to extending it to the Highlands and Islands. Of course, from a COSLA point of view, the money would not be ring fenced.

Peter Peacock: My understanding—I think that this is still the case—is that local authorities do not have an economic development duty, but are empowered to encourage it.

Councillor Hay: Yes.

Peter Peacock: You would have complete discretion as to whether—this year or next year—

to transfer that money into education, transport or whatever. Within the concordat, which makes a virtue of redeploying such cash, it would be entirely open to local authorities to do that.

Councillor Hay: We had this discussion yesterday at the Transport, Infrastructure and Climate Change Committee, in relation to fears that we would somehow jettison overnight everything that had been discussed and decided for transport and transfer it into other spheres—until we got budget announcements and un-ring-fenced moneys. That makes no sense. We are responsible people. We have entered into discussions. We are not suddenly going to jettison everything that we have been speaking about over the past few weeks just because local government has suddenly been given the freedom—if you wish to put it that way—to spend its budget where it wants. We have commitments. We are not suddenly going to say, “Sorry. We decided that yesterday, but we’ve now got budgetary freedom so we’re just going to put the money somewhere else.” We will not do that. Local government is much more sophisticated than that.

Peter Peacock: I understand the point, and I was not seeking to suggest that; I am trying to clarify that you would have the power and freedom to do that if you chose, in individual circumstances.

Councillor Hay: Of course—as central Government does.

Peter Peacock: Absolutely. I understand that.

Councillor Hay: There are contracts.

Peter Peacock: I also understand that—I was talking about what could happen beyond contracts.

Highlands and Islands Enterprise does not have central functions for the business gateway in quite the same way. This morning, we heard a figure—or rather an opening gambit for negotiation—of £2 million of transferred funding. Highland Council, given its scale, would take up about half of that. That would not leave an awful lot.

In local authorities’ view, would you need to employ new staff to carry out those transferred functions, or would you simply ask existing economic development staff to carry them out? I am not clear about how that would work.

David Valentine: We do not have staff performing those functions at the moment, so we do not have the resources to do them. That is an issue that we need to discuss. The central function that would transfer from Scottish Enterprise does not, as you say, currently cover the steering for the HIE area. That issue will be investigated in the work streams. We will make a plea for the necessary resources. We want to assess the job

that we have been asked to do, cost it and, in negotiations with Scottish Government officials, bid for appropriate resource—within reason—to ensure that we can deliver.

12:45

Peter Peacock: I understand that, if you were getting the central functions from SE, you might have a staff transfer, but there is a different situation in HIE. We have heard that 50 members of staff who work in economic development in HIE could be made redundant. We have also heard that the local authorities are suddenly taking on up to 50 members of staff. However, there does not appear to be any connection between those two situations. Is there one? Could the local authorities take over the HIE staff and save the redundancy costs?

David Valentine: We have had a similar discussion, not in respect of the HIE staff but in respect of SE. When we met Lena Wilson, she said that there were about 38 people working on different work streams within Scottish Enterprise. The exercise is progressing well. Part of it will no doubt be to make some efficiencies and, therefore, people will leave the organisation. We are concerned that some of them might be the very people whom we need to continue doing the job. That is an issue for us in the context of the transfer of functions.

Christopher Harvie: At the beginning of this evidence-taking session, a question was asked about the implications of major changes in energy provision and the sources of energy throughout Scottish society. The Minister for Enterprise, Energy and Tourism plans for about 50 per cent of our electricity to be generated from renewables by 2020, which is bound to have enormous consequences at every level of government in Scotland. I have seen the same thing happen in Germany quite smoothly because German local government units are logical, local and have almost universal local powers. However, I am afraid that, when I consider Scottish local government, I tend to think of the advice given by the Irishman—"If I were going to Dublin, sir, I wouldn't be starting from here"—because there is such a range of different scales of local government in Scotland, from Highland Council to Clackmannanshire Council. We know why they exist, but they do not entirely represent administrative logic. How do you plan to model scenarios—you must go out and do this at some stage—of how your administrative structures will look in 20 years' time and how you will cope with the enormous changes in how our fuel and energy are delivered and our recycling is carried out? I find it difficult to envisage.

Councillor Hay: COSLA has been working on an efficiency programme, but I will let Barbara Lindsay answer.

Barbara Lindsay (Convention of Scottish Local Authorities): The straightforward answer to your question is that part of the agreement on the non-cash issues that we have secured from the Government is that there will be no structural reform of local government. We will continue what we have done so far on initiatives such as the decluttering of the public sector, efficiency savings and shared services. We will continue down those routes, but we will not consider models for the structural reform of local government because we do not believe that local governance needs structural reform.

Councillor Hay: Local government has been considering how to work together. The councils for some areas naturally come together, which works extremely well where it happens. We will continue to develop that over the piece.

Gavin Brown: The convener pointed out that the committee is extremely interested in the cost of the transfer of functions from the enterprise networks to the local authorities. My understanding is that West Lothian Council has been undertaking those functions for quite a while. I did not expect to get the full cost figures today, but there must be lessons that we can learn from West Lothian Council. We must also have some idea of what undertaking those enterprise functions costs the council, which we could use as a benchmark.

David Valentine: Yes, indeed. West Lothian Council is involved in the delivery of the business gateway and, until 1995-96, I was responsible for delivering contracts to Scottish Enterprise in Angus Council. There is some experience in local authorities and the head of economic development at West Lothian Council is part of the team that is working with COSLA on the work streams, so we gain from that experience.

Lewis Macdonald: What liabilities do you anticipate acquiring as part of the acquisition of these functions from Scottish Enterprise or HIE?

Councillor Hay: The matter is still under discussion.

David Valentine: We have put in place the structure for the work streams. The work that we will do will include a risk analysis. Our biggest concern is underperformance on the contracts—not necessarily through any fault of the contractors. The evidence that my colleagues and I are receiving suggests that the fulfilment centre inquiry system for referrals is not really working for the gateway. We have a long way to go, but we find that it is untenable for contractors not to be involved in marketing. One of the rules in the contract for the gateway is that

"The Contractor must not use any of its own finances to carry out marketing of Business Gateway."

To mitigate that risk, we have had discussions with Business Enterprise Scotland. I have invited it to engage strongly in the process, because it has a vested interest in making business gateway contracts work. We will seek advice and involvement from Business Enterprise Scotland and others, in order effectively to market business gateway and to get referrals through the systems that are currently in place. We will assess the risk of underperformance and other risks and liabilities as we move forward.

Lewis Macdonald: You mentioned a central unit. How many staff does that have?

David Valentine: I cannot say how many staff are involved in the unit.

Lewis Macdonald: Can you give us a rough ballpark figure?

David Valentine: I do not have a complete picture and would not like to hazard a guess. We are hungry for that information and are keen to get into a detailed discussion.

Lewis Macdonald: There are a number of examples of business gateway contracts being let by local enterprise companies, which are able to do so using only part of the time of one or two members of staff. Do you anticipate the same pattern continuing and the same level of efficiency being achieved within the structures that you intend to put in place?

David Valentine: Scottish Enterprise has told us that in the current LECs between 10 and 15 people are responsible for managing and overseeing the work of the contracts. We need to understand that better, because we believe the figure to be higher. We are concerned that sufficient staff resources should be available to manage the contracts.

Lewis Macdonald: The number that you have been given seems consistent with numbers that I have seen at local level. Why do you anticipate that more than 10 to 15 people will be needed?

David Valentine: My answer is based on the knowledge that we have in the network of local authorities. From our understanding of how many people are involved in each of the LECs, we estimate the figure to be higher.

Lewis Macdonald: Presumably we are talking about 10 to 15 full-time equivalent staff, rather than full-time posts. Do you still question the figure?

David Valentine: We put a question mark against it—nothing more than that. This is one of many questions that we need to work through.

Lewis Macdonald: Currently, when the business gateway has identified a potential growth company, that company is flagged up to the appropriate person in the network, who provides account management within the local enterprise company. How do you anticipate the relationship working in the future? When two or three local authorities have acquired responsibility from one local enterprise company, will they manage it through one unit? Will that unit have a direct relationship with the enterprise network?

David Valentine: Local authorities have concerns over the way things work at present. If someone contacts the call centre after seeing an advert in the paper, on television or wherever, certain questions will be asked in order to assess whether, for example, the business might grow within a year to be a VAT-registered business. If the answer is no, the client will simply be referred to training events or whatever, or to the website. The website is much improved and gives a lot of information, but we have concerns that some people who should be getting one-to-one counselling are not getting it. We would want to get into discussions with contractors and, in my area, we have done that already. If we take responsibility for contracts, we want to discuss with the contractor how we can improve the service locally. Additional costs will be involved, and that would form part of our discussions with the Scottish Government.

In Tayside, there are three local authorities and we have all been involved for the past 10 years, since reorganisation. We are just winding up the Tayside business gateway, of which I have been a director for the past 10 years. We have been putting in additional resources to get added value from the mechanisms that were put in place by Scottish Enterprise. We have therefore already had experience of working together, and I am sure that enough examples of shared service agreements exist so that, in other areas where authorities have not had the same experience with gateway, the modelling is doable, if not always straightforward.

Part of the work that we will do within our work streams will be to get across ideas on models and modelling for the six regions, so that we can broker an arrangement between the authorities.

Lewis Macdonald: Does that mean that, as part of your current negotiation with the Scottish Government about taking over business gateway, you are building in a bid to provide a service that is better than the one currently provided?

David Valentine: We will be looking to provide added value.

Lewis Macdonald: And therefore for additional resource.

David Valentine: Yes.

George Foulkes: I am slightly puzzled. Perhaps I am getting things wrong but, from your answers so far, you do not know the costs, you do not know whether there will be liabilities, and you do not know the delivery structure. You have just astonished me even more by saying that, in Tayside, you are in the process of wrapping things up and will now have to start building them up again. Why? Why all the muddle? Why are you not properly organised to deal with it?

David Valentine: I would say that local authorities are well positioned and are keen to get things right. What attracts us most is the idea that we can incorporate this specific service into everything else that we are doing locally.

George Foulkes: Did you not see this coming?

David Valentine: Until we had a proposition in front of us—and given that an election took place not so long ago—

George Foulkes: In May.

David Valentine: We have just come through a very uncertain period. Now that we have a proposition, we have to understand it better. We are determined to make it work, but it is complex. It will not be easy.

Councillor Hay: That has been acknowledged by the fact that the Government has told us that we will not be held to the deadline of the end of the financial year. At all costs, we have to get this right. There has been a delay in the settlement and we have only just received details of budgets. We are at present setting up meetings with both Scottish Enterprise and Highlands and Islands Enterprise to negotiate the details. We have to get it right and that will take time. We have some models and COSLA will try to ensure that they are rolled out across local authorities. Where appropriate, they will probably be adopted—but that takes time and we have to get it right.

Dave Thompson: In the Highlands and Islands, which I represent, the position is not quite so clear, because of the business gateway and so on. I suspect—let me know your views—that the central function in the SE area would probably be able to absorb a good bit of the requirement for the Highlands and Islands. There would only have to be a small increase; I would not have thought that it would have to be proportional.

Witnesses have mentioned various models for the central unit. If you were to choose a location in a large local authority area, perhaps you would be interested in bringing it up north. That would be a good bit of decentralisation.

13:00

Lewis Macdonald: That will be Aberdeen.

Dave Thompson: No, that is not the north; that is the north-east.

Finally, in taking this forward, what involvement do you expect to have with local businesses?

David Valentine: On the first question, the central resource may be sufficient to overarch all six regions, not just the five. I think that we all hope that that is the case. Obviously, we will be reasonable and understanding in our interpretation of the resource implications.

You will forgive me if I do not come to a decision on the second question. That is all to play for.

The third question on business engagement is the issue that exercises our minds more than any other. Over the past 10 years, as we have got bigger, the main issue of concern has become the lack of local engagement with the business sector. In my area of Tayside, when we were within the three authority areas—at least in terms of local delivery and local presence—we could engage with the business sector in a meaningful way. Business felt that it had a role to play locally in overseeing certain parts of the function. Certainly, that was the case when we ran the enterprise trust up until 1995-96.

Over the past 10 years, we have become concerned about the lack of business engagement and buy-in. If we take the gateway function and embed it into everything that we do locally in the business and tourism dimension, we will have a real chance of regaining the buy-in of the business sector. We have had that sort of discussion with Business Enterprise Scotland. I think that we are now singing from the same hymn sheet.

We want early discussions on the matter. In fact, we have had discussions with the Scottish Chambers of Commerce, Federation of Small Businesses, and the Confederation of British Industry. We want to engage with them, nationally and locally, to ensure that that is part of the modelling.

Dave Thompson: You feel that they will respond positively.

David Valentine: I feel that they will, once we get clarification on where we are going.

The Convener: I thank our witnesses from COSLA for coming to committee to give evidence. Again, I apologise for keeping you waiting all morning.

Decision on Taking Business in Private

13:03

Meeting continued in private until 13:04.

13:03

The Convener: Earlier, I forgot to take item 1. We will consider the matter now. Do members agree to take item 3 in private?

Members *indicated agreement.*

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