

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 21 May 2008

Session 3

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ECONOMY, ENERGY AND TOURISM COMMITTEE

11th Meeting 2008, 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 GAVE EVIDENCE:

Sandy Brady (Highlands and Islands Enterprise)
Marie Burns (Skills Development Scotland)
Sandy Cumming (Highlands and Islands Enterprise)
James Fowlie (Convention of Scottish Local Authorities)
Hugh Hall (Scottish Enterprise)
Councillor Alison Hay (Convention of Scottish Local Authorities)
Donald Henderson (Skills Development Scotland)
Barbara Lindsay (Convention of Scottish Local Authorities)
Stuart Patrick (Scottish Enterprise)
Jack Perry (Scottish Enterprise)
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 21 May 2008

[THE CONVENER *opened the meeting at 09:30*]

Decision on Taking Business in Private

The Convener (Tavish Scott): A very good morning and welcome to the Economy, Energy and Tourism Committee's 11th meeting in 2008. We have a fairly full agenda this morning. First, I ask committee members whether they are content to take in private item 3, which is continued consideration of our tourism inquiry.

Members *indicated agreement.*

Enterprise Network Reform

09:30

The Convener: This morning, we will take evidence on the reform of the enterprise networks and the related transfer of functions, which the committee considered closely at the time of the budget and the Government's statement on the enterprise networks last September.

We have four separate panels of witnesses, beginning with representatives from Scottish Enterprise. I am pleased to welcome Jack Perry, the chief executive of Scottish Enterprise; Hugh Hall, its chief financial officer; and Stuart Patrick, its senior commercial director. I thank them all for coming today.

Mr Perry, by way of introduction, it might be helpful to the committee if you could set out the differences between how your organisation was and how it is now in respect of its budget, its operating staff—on which there has been some comment—and the responsibilities that it used to have and those that it still has.

Jack Perry (Scottish Enterprise): Thank you, convener. I would be delighted to do that. I will first make a few opening remarks, if you do not mind.

The last time that we came to see the committee was a little bit unsatisfying for us all. We appeared only two weeks after the Government had issued its budget and we did not, at that stage, understand its implications for us. As a consequence, we had not prepared our budget or developed our business plan. Both of those have now been issued and sent to members individually, so I hope that we will have an opportunity today to answer any questions that members might have on them.

Since our last appearance before the committee, we have undertaken a dramatic root-and-branch restructuring of all our operations, following the Government's review of the enterprise networks. We used to be responsible for all the national skills programmes and the business gateway; we also operated through a network of 13 statutory limited companies throughout the country. We have changed all that quite dramatically.

The impact on our staffing is as follows. We used to have approximately 2,500 people in the organisation. Approximately 1,200 of them have transferred, principally to Skills Development Scotland, although some have gone to local authorities and some to the Scottish Government. In addition, a voluntary severance programme has reduced our head count by a further 260, which brings it down to roughly 1,050. Some people have been retained for another couple of months

so, at 1 April, not all those who selected voluntary severance had left the organisation, but we should have 1,050 staff within the next month or two.

We have simplified all our governance structures and streamlined our operations to generate new efficiencies, which we think will provide significantly better value for money for taxpayers. Although the local enterprise companies have been disbanded as statutory limited companies, we have retained all our local offices and are basing more of our staff near our customers so that we can be more responsive to their needs. We will do more of that over the coming year.

Operating as a single organisation gives us the flexibility to allocate resources and people where they can have the biggest impact. For example, specialist teams that focus on innovation, internationalisation and infrastructure now operate across an entire region—or, indeed, across Scotland—providing our account-managed customers with the specialist support that they need.

We have published our business plan for 2008 to 2011, which sets out our new focus on supporting higher-value business growth and helping to build an internationally competitive business environment. It also highlights the measures of what we will deliver in the coming year. We have set ourselves some ambitious targets for the year that aim to demonstrate our impact in terms of the turnover that we will help our customers to grow, the research and development investment that we will help to stimulate and the private sector investment that we hope to leverage on top of our own spending.

We now have clarity of focus, which we have sought for some time, on economic development driven by the demands of our industries and providing support for growing businesses and the business infrastructure that will make Scotland a better place in which to invest.

I am happy to take the committee's questions.

The Convener: You are clear about the staff numbers; could you also be clear about the numbers in relation to the budget for the coming year?

Jack Perry: We had a baseline budget of about £550 million after all transfers and the settlement in the spending review. Our operating budget for the coming year will be about £327 million on a resource basis, or about £297 million on a cash basis.

The Convener: Thank you. We have two types of question this morning. First, colleagues have some questions on detailed matters; we will then consider the wider picture. Please do not think that we are asking only about details—we will also raise some broader themes.

Marilyn Livingstone (Kirkcaldy) (Lab): I will start by asking about local economic regeneration. In his statement of 26 September 2007, the Cabinet Secretary for Finance and Sustainable Growth referred to the amount of activity that had transferred from Scottish Enterprise to local authorities. Has there been any change in activity at a local level since 1 April? In other words, how much activity has been transferred to local authorities? What was the spend on local economic development before, and what is it likely to be over the next three years?

Jack Perry: I will perhaps bring in Hugh Hall at this point.

Marilyn Livingstone: It is a very important issue for me.

Jack Perry: Of course it is. Local economic development is an area for which Scottish Enterprise has been responsible. In fairness, however, its importance within Scottish Enterprise has been reducing over a number of years. Local authorities have always had a significant role. The work that we did was almost always in partnership with local authorities. Hugh Hall might be able to expand on that.

Hugh Hall (Scottish Enterprise): Since the cabinet secretary's announcement, we have been in discussion with the Convention of Scottish Local Authorities and the Scottish Government about the transfer of our business gateway function and our local regeneration functions. Those discussions have now come to a conclusion. We are tidying up the fine detail of the new arrangements.

To summarise what is happening on the regeneration front, we will transfer £12.5 million cash from our budget to local authorities for local regeneration activities. In addition, £12.5 million will be ring fenced within our budget. In the first instance, that will be used to fund projects involving urban regeneration companies. Any available funding beyond that may be used following discussion with local authorities and community planning partnerships. The total sum transferring over is about £25 million.

Marilyn Livingstone: My information indicates that there was a £50 million budget for local economic development before 1 April. If it has gone down to two tranches of £12.5 million, that would seem to be a reduction.

Hugh Hall: We provided information to COSLA suggesting that our spend on local regeneration last year was something like £7 million and was in fact reducing. Our board had signed off a strategic investment plan in which, increasingly, any resource that we had to spend on business infrastructure was being dedicated to high-value transformational projects. We were gradually moving away from local regeneration activity in any event.

We had an open-book exercise with COSLA and the Scottish Government. We went through each of the projects in our pipeline in very great detail to determine what is a local regeneration project and what is legitimately a business infrastructure project of scale that supports our business plan.

There are some grey areas in between. We have been investing quite heavily in infrastructure works in St Andrews, for example, which could be seen as work in the public realm. Looking at that through one lens, one could see that as local regeneration. Through another lens, one could see it as business infrastructure investment and destination management. We had some interesting discussions with COSLA colleagues around that point.

The Convener: From £50 million to £7 million—that is a big grey area.

Jack Perry: I am not sure where the £50 million figure comes from, although it could come straight out of our business plan. Last year we spent £49 million on our local and national infrastructure activities. However, I do not recognise the £50 million figure. Certainly, we could never ascribe that figure to local regeneration—the figure for local regeneration is nothing like that.

Marilyn Livingstone: Is the £12.5 million over three years?

Hugh Hall: No—£12.5 million per annum has been transferred to local government for regeneration projects, which we think is a fair and reasonable settlement.

Marilyn Livingstone: Does COSLA agree?

The Convener: You can ask its representatives later.

Jack Perry: COSLA agreed the figure.

Marilyn Livingstone: In his statement on 26 September, the Cabinet Secretary for Finance and Sustainable Growth said:

“Local regeneration activity in the Scottish Enterprise area will also become the responsibility of local authorities. Currently, Scottish Enterprise is engaged in a range of regeneration and economic development-related activities, including land and property interventions. Some of that regeneration activity is very local in nature”.—[*Official Report*, 26 September 2007; c 2074.]

In light of those comments, will you set out your plans for transferring to Scotland's local authorities the land and property assets that are held for local economic regeneration? It is not just about the revenue costs; what are you going to do about the land and the assets?

Hugh Hall: We have an asset base that is valued at about £180 million. That has been a major topic of discussion between us and COSLA. We made it clear from the outset that we have to

transfer our assets at value—that is a requirement in the Scottish public finance manual. We have also given COSLA and local authorities our list of assets and the evaluation of those assets. We agreed with them that if we were to transfer or sell any of those assets, we would discuss it first with local authorities and give them first shot, if you like. That arrangement is in place. We cannot transfer assets at zero cost, but we are happy to transfer them at value.

Now that we have concluded the negotiations and agreed the transfer values, we need to sit down with local government and talk about how we can work together to develop projects. The fact that one cannot put a dividing line between local regeneration and business infrastructure came out of the negotiations. We need to look at how we maximise the total resource available, particularly in tourism, in relation to which both we and local authorities have expertise that we can bring to the table. The same goes for assets—how can we maximise their value?

The Convener: You said that you have valued all those assets.

Hugh Hall: We have.

Jack Perry: We do it every year.

The Convener: Can you share that value with the committee?

Hugh Hall: The total asset value is around £180 million.

The Convener: Is the expectation that the assets will transfer to local authorities?

Hugh Hall: No, we will retain the assets in Scottish Enterprise accounts.

Marilyn Livingstone: So what will happen if there is a piece of land that might be valuable to a community for a local regeneration project?

Hugh Hall: We have given a list of the assets to all the local authorities and asked them to identify any that they wish to be transferred.

Marilyn Livingstone: So such an asset would not stay with you—

Hugh Hall: We would transfer the asset at market value.

Marilyn Livingstone: That is fine.

I also asked whether there has been a reduction in activity at the local level since 1 April. If so, can you quantify it?

My last point is important: the cabinet secretary said in answer to questions from the committee that where there were successful partnerships, they would continue, and that Scottish Enterprise would continue to lead and support local economic

partnerships in the future. We are down to 10 to 12 account managers in Scottish Enterprise Fife in my constituency. How will you be able to support those successful local partnerships, which are very important to people outwith the cities in particular?

Jack Perry: I am happy to answer the final point. It is important to recognise that the account managers are there to serve individual businesses. Our business plan looks to increase the number of account managers. Although we have had a dramatic reduction in our total staffing, during the coming year we will increase by about 10 per cent the number of account managers who serve business customers.

We also now have a network of industry specialists in the life sciences, digital media and energy, for example, and in business processes in areas such as manufacturing. That network is available as a national resource to any customer in the country. I do not have the precise number of people who work in our Glenrothes office, but there has been no diminution in the number of account managers serving customers in Fife or anywhere else.

09:45

Marilyn Livingstone: I am comfortable with that—I know that account managers have worked well in Fife. However, you are well aware of partnership projects and other projects that were run by Scottish Enterprise in Fife—you are aware of the three big projects. What role will Scottish Enterprise have in the successful projects that it has been involved in if there are only account managers in the local office? How will you serve and maintain local partnerships that deliver the projects? I am not concerned at all about the account managers.

Jack Perry: Okay—good. I am sorry; I thought that there was some confusion.

On the management of infrastructure projects, we have an infrastructure team within our regional structure that takes responsibility for the delivery of our projects. Recently, I visited Fife energy park. That project is continuing; we are continuing to work with private and public sector partners to ensure that it is delivered. It fits in with our national programme. We have a very capable infrastructure team in the east of Scotland that will continue to work on such projects. That team will work out of whichever office is appropriate at the time, as all our people do. All our people can now work across and between regions to ensure that we use our expertise to the best of our ability. One of our frustrations with the old network was the rigidity that existed. It was not easy to transfer or second staff or simply have them working across

boundaries because of how the budgeting was done and the way in which staff were accountable, but that has all gone. We can now use our most capable people where they can add most value to projects.

The Convener: Members have a number of supplementary questions.

Marilyn Livingstone: May I ask a question again that has not been answered? I think that I have asked it three times.

The Convener: You will have to keep it tight.

Marilyn Livingstone: Has there been any reduction in activity at a local level since 1 April?

Hugh Hall: I will be brief. I reassure you that there has been no diminution in activity. We have been an open book on the projects that were in the pipeline, we have shared information with local authorities, and we have a joint commitment to ensure that all those projects are delivered either by Scottish Enterprise or by transferring the cash to local authorities for them to deliver. There has been no reduction in planned activity.

The Convener: Thank you for your refreshingly blunt answer.

Lewis Macdonald (Aberdeen Central) (Lab): I want to be absolutely clear about the numbers. Jack Perry mentioned a cash budget of £297 million for the year. Is that net of the transfer of £12.5 million, but including the ring-fenced £12.5 million?

Jack Perry: Yes.

Christopher Harvie (Mid Scotland and Fife) (SNP): Hugh Hall cited assets—mainly property assets—of £180 million. Given the recent headlines about the condition of the property market, are you confident that those assets will retain their market value?

Hugh Hall: That was the asset valuation at the end of the financial year, which was a couple of months ago. Generally speaking, asset values have held up, although we have taken a bit of a hit in one or two areas—on our waterfront investment, for example. We were looking for a planned reduction in value of around 10 per cent, but we have taken a hit of around 20 per cent because of the nature of the market in the area. However, generally speaking, our property investments are holding up reasonably well in the marketplace. We will continue to keep them in view.

Jack Perry: It is important to recognise that, to meet our budget, we rely on income from property in respect of both revenue and disposals.

Gavin Brown (Lothians) (Con): I will go back to Mr Hall's figures for local regeneration, on which I think that he said Scottish Enterprise spent about

£7 million last year. If so, why is Scottish Enterprise content to give that area up to £25 million a year?

Hugh Hall: We are not giving that away: there is £12.5 million for local regeneration, and another £12.5 million for URCs. Our starting position was that we were reducing the amount of investment in local regeneration: we had reckoned that the amount involved was about £7 million or £8 million last year, and it was moving towards £3 million or £4 million. I made the point earlier that it is a grey area: one man's regeneration project is another's business infrastructure project. We had a dialogue with COSLA, examined individual projects, discussed the matter and settled on the cash transfer of £12.5 million.

I am not really content with that, as I would have preferred to hang on to more money for investment. COSLA is probably not really happy with it either, but we had to settle on a figure and £12.5 million seems a fair and reasonable settlement. Having settled, the important thing is that we now get on and deliver the programme.

Gavin Brown: I will move on to national and regional regeneration. I read the following statement in the operating plan:

"we have a real challenge in delivering our growing pipeline of projects".

However, when Mr Perry appeared before us in November, he said:

"We will comfortably meet all the commitments that are currently in the pipeline".—[*Official Report, Economy, Energy and Tourism Committee*, 28 November 2007; c 282.]

Can he explain the discrepancy between those two statements?

Jack Perry: We have a pipeline of potential projects, some of which are at a further stage of development than others. At one end of the pipeline are projects to which we are legally committed, and we have given an indicative commitment to other projects. At the other end of the spectrum, there are projects that are just at the initiation stage. Our total pipeline includes about £80 million-worth of projects that we could do. I am comfortable that we will meet all our commitments; we are not overcommitted or overextended. We will probably not be able to do every project in our pipeline, so we might have to consider rephasing, how we can leverage in greater levels of private sector investment on top and some reprioritising, based on the demands of our key industries.

We will manage our pipeline. We know what our cloth is, and we will just have to cut the programmes to fit.

Dave Thompson (Highlands and Islands)

(SNP): You mentioned that you are planning to increase the number of account managers by 10 per cent. Is that a 10 per cent increase on the number before the restructuring or on what was left after it?

Jack Perry: There is no significant difference in the number of account managers before restructuring and after. Certain categories of job were not eligible for voluntary severance, and account managers are at the core of what we do.

David Whitton (Strathkelvin and Bearsden)

(Lab): Will you give me a rundown of how the transfer of business gateway functions has gone?

Jack Perry: I am happy to do that. I may bring in Hugh Hall, who led on most of our negotiations with COSLA.

The business gateway negotiations were completed in time for the beginning of the new year. We successfully transferred the management of the business gateway contracts through COSLA to 12 lead local authorities. During that time, we maintained business as usual within the business gateway for our customers. That was done particularly well. In fact, last year, the business gateway served and supported a record number of business start-ups—about 10,400, which is an 11 per cent increase on the previous year. We were pleased that it was business as usual as far as customers were concerned.

The contracts are now managed by lead local authorities, but the national inquiry centre, the website and national marketing have remained with us. However, a new joint board that involves us, COSLA, the Scottish Government and business organisations has been created to determine the future for the remaining national functions within the business gateway.

In terms of service to business, the new contracts that were introduced last year have been launched successfully and the transfer of functions seems to be operating. The challenge will be to ensure that the working relationship between Scottish Enterprise and the local authorities is positive and constructive, because we need to get a pipeline of fast-growing companies to graduate into account management at Scottish Enterprise.

David Whitton: This is probably just for my benefit, but could you clarify the budget numbers that were transferred over?

Stuart Patrick (Scottish Enterprise): The overall budget number that has been transferred over for this financial year is £11.7 million. The figure is very similar for future years: between £11.7 million and £12 million. There is an estimate in the business plan. When we were drawing up the business plan, we estimated a figure of around

£11.6 million. Although it is slightly higher, it is pretty much in line with what we said would happen in the business plan.

The Convener: That is just for the business gateway.

Stuart Patrick: Yes.

David Whitton: You are quite happy that every area that had a business gateway, if I can put it that way, is being served well.

Jack Perry: What was planned by way of changes to the service has been implemented. I know from previous discussions that there were concerns about the number of business gateway offices and so on. I do not have a breakdown by local office, but nationally there have been record numbers of inquiries and of new business starts that have been supported. In terms of the operating metrics for the past year, things seem to have gone okay.

David Whitton: Going by my experience in my own area, I am still not aware how many staff have transferred from Scottish Enterprise Dunbartonshire to East Dunbartonshire Council to look after the business gateway there, for example.

Jack Perry: Very few staff in total actually transferred with the business gateway. It was about half a dozen overall—that was about the full-time equivalent number involved in the management of the contracts.

Hugh Hall: We have transferred the salary value to the lead local authorities. We have also agreed—

David Whitton: I am sorry—what does “the salary value” mean? Does that just mean giving local authorities the money to employ people?

Hugh Hall: The individuals are transferred over under the Transfer of Undertakings (Protection of Employment) Regulations 2006, or the salary costs and an additional cost are transferred over to the lead local authorities so that they can employ the staff who are required to run the gateway. We have also agreed with local authorities to have a handover period, during which we will give additional resource and support to ensure a smooth transfer of activities.

We will need to have a continuing dialogue around the transfer of knowledge and information between the respective organisations. We are particularly keen for the business gateway to continue to identify growth businesses, which will transfer over to our account management processes. We will rely on the national grouping that is chaired by the Scottish Government and includes Scottish Enterprise and local authorities to ensure that business continuity and liaison are firmly embedded.

David Whitton: Who is on that new national committee?

Jack Perry: It is chaired by the Scottish Government, with representatives from Scottish Enterprise, Highlands and Islands Enterprise, COSLA, the Scottish Chambers of Commerce and the Federation of Small Businesses.

David Whitton: Will that body set the targets for business gateway?

Jack Perry: No. It will be responsible for determining the future of the national functions that remain at present with Scottish Enterprise—marketing, the national inquiry centre and the national website.

The Convener: Before I call Gavin Brown, I want to check for the record that six staff have transferred to—

Jack Perry: About half a dozen staff actually transferred to individual lead local authorities.

The Convener: Do those half dozen staff have responsibility for the £11.7 million contracts?

Jack Perry: No.

Hugh Hall: All the business gateway activity is contracted out.

The Convener: So what do those staff do?

Hugh Hall: The staff are there to do intelligent client management. They manage the contracts, oversee them and ensure their smooth delivery.

The Convener: What do the staff who are retained within Scottish Enterprise continue to do? Do they continue to fulfil the national functions that you described earlier?

10:00

Jack Perry: Yes, absolutely.

The Convener: How many of them are there?

Jack Perry: Gosh, I could not give you that figure. I am happy to provide you with the number who are employed at the national inquiry centre and involved in the website.

The Convener: Thank you.

Gavin Brown: To be clear, throughout Scotland only six staff have transferred.

Jack Perry: Yes.

Gavin Brown: Did they really oversee the delivery of more than 10,000 business start-ups?

Jack Perry: No. Last year, we re-engineered the contracts and now all the business gateway services are provided by contractors, who operate the business gateway shops and provide the advisers. Scottish Enterprise staff are responsible

for the management of the contract—they supervise the contractors. As Hugh Hall explained, six staff who were involved predominantly in doing that transferred. Often, the person in a local enterprise company with responsibility for managing the contract would have other responsibilities as well. It was not a full-time equivalent post, so we transferred a salary-equivalent budget to the local authorities to enable them either to hire someone to do that job or to redeploy someone else within the local authority to fulfil that function.

Stuart Patrick: A transfer of around £600,000 is being made to cover the costs of the necessary staff, so it is not an insubstantial sum of money.

Gavin Brown: What structures are in place to ensure that high-potential companies are transferred from each of the 32 local authorities upwards to Scottish Enterprise? That seems to me to be pretty important.

Jack Perry: Indeed. We will have prospecting managers—it is probably a horrible name—within our local offices to work with the gateway.

The Convener: Prospecting managers?

Jack Perry: Absolutely. They will go out prospecting among the companies served by the business gateway for companies that have the potential to grow to £1 million turnover within three years, and those companies will transfer to account management at Scottish Enterprise. In effect, that is what we did when we had the business gateway in-house, but we have now set up a mechanism to ensure that companies can graduate from the business gateway to account management now that the gateway is operated by local authorities.

Gavin Brown: Is that happening already?

Jack Perry: It is.

The Convener: With the greatest respect, how do we know that it is happening? If a local authority chose not to pass on the information, for whatever reason—not least of which might be that it wished to have the kudos of taking a company up to a higher level—how would Scottish Enterprise pick up such a company?

Jack Perry: Well, to some extent, we have to rely on good will and collaborative behaviour, which are certainly reflected in the nature of the discussions that we have had. I have had very constructive meetings with Pat Watters and his colleagues at COSLA. If someone wants to behave as you describe, we will start to see company growth suffer in their region. Our information systems provide some see-through and our customer relationship management system will give us some information but, at the moment, I cannot think of any reason why the mechanism would not work.

Lewis Macdonald: Let us rehearse the situation briefly, taking the area of Scotland that I represent as an example. The business gateway service is provided by Enterprise North East Trust, which is the contractor; I think that it provides the service in Tayside as well as in Grampian. In each area, a lead local authority is now responsible for running the system. If I recall correctly, in the north-east, that is Aberdeenshire Council. Have the funding and staffing that you said are being transferred gone to Aberdeenshire Council for it to provide and manage? Is it correct to say that it is the holder of those resources on behalf of the other local authorities?

Jack Perry: That is correct. The value of the contract was its value before the transfer. That is the amount that was transferred to the lead Local Authority, together with a cash sum to cover any additional staffing that the authority now needs to manage the contract.

Lewis Macdonald: When the local authorities took on that responsibility, was there a requirement to renegotiate any of the contracts, or did all the contracts go forward as they were?

Jack Perry: We were keen for the contracts that had just been awarded and negotiated to remain in place. The whole philosophy was to have a uniform contract throughout Scotland. We knew from the previous regime, when we had 27 different contracts, that there was a huge disparity in performance from contractor to contractor. The whole thrust of renegotiating or developing a single, uniform, national contract, with uniform, national service standards and performance measures, was to allow every contractor to get up to the standard of best of breed from the previous regime. That principle remains intact. I know that there has been a little press speculation and that some local authorities have discussed how they might wish to change in future, but the contract was transferred as it was at the time.

Lewis Macdonald: There is a tension between rationalising the contracts to a single national standard, which you had already overseen, and then devolving the management to 12 different groups of local authorities? Does that tension cause you concern?

Jack Perry: Potentially but, in our discussions, COSLA was keen to maintain that national standard.

Hugh Hall: We have had those negotiations over recent months and, as I think we mentioned in the business plan, we welcome the increased commitment of local authorities to local regeneration and local economic development. We have a joint commitment to ensure business continuity. We have to retain the confidence of the contractors who supply the services and ensure

that the customers and potential customers of the business gateway are well served. I do not see that there is anything between us in that regard.

How local authorities will want to deliver the business gateway in the future is a matter for them; we transferred the activity to them. However, we would like to think that any changes that take place—particularly substantive ones—will be subject to discussion with Scottish Enterprise in the joint forum of the Scottish Government, Scottish Enterprise and COSLA.

Lewis Macdonald: The three-year contracts are all new, so there is no reason that you are aware of why any of them should be subject to renegotiation in those three years.

Jack Perry: There is no reason why they should be, but the nature of the contract is such that if someone wished to renegotiate it, they could.

Lewis Macdonald: If a local authority—not necessarily a lead authority—decided that it was no longer going to spend money on things that it was not obliged by statute to spend money on, would the services be protected?

Jack Perry: I am not sure that I can answer that.

Hugh Hall: Perhaps that is a question for COSLA colleagues later, but my understanding is that the cash is transferred not ring fenced. A contractual commitment is in place that would have to be negotiated away somehow, but that question is more for COSLA than it is for Scottish Enterprise.

Lewis Macdonald: But I think that you are saying that the test of the success of the process will come when the contracts are up for renegotiation in three years' time.

Hugh Hall: Yes, but I am also saying that I cannot imagine that local authorities will want to damage the existing service provision. If anything, they will want to see whether there is any way that they can improve the contracts, with an eye on local provision. Marketing might be looked at, for example, and the extent to which investment should be in local or national marketing or a balance between the two. There is scope for further discussions, but they would be about refining and improving the contracts, rather than the withdrawal of a service.

Brian Adam: It is interesting to find out what has happened as a result of the reorganisation, but it is still Scottish Enterprise's business to make Scotland's economy grow. The Government has identified that as few as 115 companies in Scotland have a turnover of £100 million. A lot of your money and effort is supposed to be directed at high growth. What confidence can you give us that you will help to grow the number of larger

companies that will be dynamic enough to generate the jobs that we need for the future?

Jack Perry: What you described is what we are now charged to do. I stress that our job is to make a measurable contribution to that goal. I also stress that we have less than 1 per cent of the Scottish Government's budget. That is why we support and are greatly encouraged by the Government's economic strategy, which sets out the alignment that all of Government has to have behind growth. You simply cannot give us less than 1 per cent of the budget and say, "Over to you—on you go." Unless everyone is committed to the agenda, it is not going to happen. We have talked a lot about the need for greater alignment of public investment towards growth, to provide the infrastructure for growth companies to flourish.

Within our remit, we can do an awful lot. We can leverage a lot of private sector investment into transformational projects such as the Edinburgh BioQuarter. We invested about £23 million and attracted £250 million of private sector investment in that project, which is creating 1.4 million square feet of dedicated commercial space for the life sciences. That is a pretty good return on the investment.

We can also drive more innovation in our growth companies. That is why we segmented 1,900 companies; there are 300,000 companies in Scotland and we account manage 1,900 of them. In our business plan, we mention deeper engagement with those companies, using innovative programmes such as the proof of concept programme, the intermediary technology institutes, Scottish Health Innovations Ltd and the translational medicine research institute, and making better connections between those projects and companies that can commercialise the intellectual property that they develop. We work with them on process improvement through the Scottish manufacturing advisory service.

Companies in Scotland underinvest in research and development. Can we encourage and stimulate more of that? Our work is not just about development into products but about process improvement. We work with tourism businesses on service improvements and business models. Our work is about deeper engagement with companies, about driving more innovation into our companies, and about transformational projects in which we leverage in more investment.

Our business plan contains a measure of the contribution to growth that we can add to our account-managed companies, and you can compare that with growth for a control group of other companies in Scotland. We believe that we make a genuine difference.

That is what we are committed to in our business plan. Our high-growth start-up unit is another example. It is working with 20 to 30 new companies that can get up to £5 million of turnover relatively rapidly. In last year's Deloitte fast 50, the top three of the 50 fastest-growing companies in Scotland were products of our national high-growth start-up unit. Our work is about building companies of scale, which is not easy, but we are focused on doing that and we are up for it. It is all about business growth.

Sorry. That was a long-winded answer to a simple question but, as you can tell, I feel strongly about the matter.

The Convener: Before I bring in Christopher Harvie, will you elaborate on the ITIs, which you mentioned? The operating plan contains a figure that illustrates that their financial support is being reduced. Will you explain the reason for that?

Jack Perry: You will see in the plan that the figure for last year was £53 million. That included £8 million for a one-off project, so the baseline was £45 million. The figure for this year is £38 million, so it has reduced. As a percentage of our total budget, however, it is larger than ever.

I am afraid that you will see some reductions throughout our budget. Most of them are in overheads, which have taken the largest single hit. In some areas, we are growing. However, the figure was agreed with ITI Scotland and we believe that it will be able to manage a full programme. As with the pipeline of physical projects that I described, it might be able to do more, but it will manage its commitments. Many of its programmes last for a significant period of time. It will honour all its commitments and will be able to do new projects as well.

The Convener: So you are comfortable that, in three or four years' time, the ITIs will still be an essential part of the infrastructure.

Jack Perry: We remain committed to the ITI project. Will it continue to evolve as it has done? Yes. Ultimately, it is not a programme to commission research. If that is all that we achieve, we might as well be one of the research councils or the Scottish Further and Higher Education Funding Council. It is a company growth programme—it is about high-technology growth companies. Now that it has been operating for three or four years, and many of its programmes are reaching maturity, the big challenges are how we can more rapidly commercialise the intellectual property that it has created; how we can drive it into the account-managed base; and how we can bring in new investment from outside Scotland to commercialise it. The model will almost certainly evolve.

10:15

Christopher Harvie: That sounds like a logical, flowing consecutive programme but, in my discussions with Scottish businessmen in Germany, I was conscious that they believed that Scottish Enterprise was overly fixated across the Atlantic, and not sufficiently conscious of its European relations. Now that we have a situation in which the dollar is collapsing vis-à-vis the euro, is it not time to develop much closer relations with Germany? We now know that German companies have extensive shopping lists in terms of inward investment in this country. What steps are being taken along those lines?

Jack Perry: We have beefed up our continental Europe team—we have an office in Düsseldorf, and we have beefed up the northern European team that is based in Paris. We are more engaged with Europe. The propositions are often quite different because Scotland is an integral part of the European Union and the investment needs and objectives of EU-resident investors are different from those of investors outside the EU.

We are absolutely interested in having better connections, particularly for Scottish companies to invest in and exploit European markets. We have increased our staff numbers in those areas and we will continue to monitor the situation. You will see in the Scottish Enterprise business plan budget that, despite the fact that we have had to cut our cloth, our commitment to Scottish Development International is undiminished right through the three years of the plan. It has been completely protected and we will continue to view it as an essential part of what we do.

Lewis Macdonald: I had the opportunity at the oil energy conference in Aberdeen yesterday to talk to Duncan Botting, the new managing director of ITI Energy. He is ambitious, as are all the ITIs, to deliver on his objectives. You say that this is a priority area, but the budget is reducing, which clearly has consequences. One of the purposes behind ITI Scotland is to lever private investment. Do you work to an equation in terms of how much private investment you get for how much public investment? How is that relationship changing?

Jack Perry: We do not have a prescriptive figure for ITI, although we do for our investment funds. The real challenge now is the relationship between ITI and Scottish Enterprise, because ITI has been involved in market foresighting and commissioning research, and it is now harvesting the intellectual property that is coming out from that. It has now registered more than 117 patents.

The real challenge is the level of private sector investment that we can get, which will take a variety of forms. Some of the investment will involve straightforward licensing to either domestic

or overseas companies, from which we can realise value. Some will involve overseas investment coming into Scotland and establishing operations. The form of investment that was originally intended and which we hope will be the largest single one is indigenous Scottish companies running with the intellectual property.

ITI does not have the company formation or the relationship, systems and procedures that Scottish Enterprise has. ITI is a wholly owned subsidiary of Scottish Enterprise, so it is important that we effectively gear up those relationships and the deeper knowledge and understanding of our account managers of what is coming out of ITI now. That is a big challenge.

A review is going on into how that will work and what ITI and Scottish Enterprise need to do differently in the future to maximise our ability to exploit that intellectual property.

Lewis Macdonald: I think that you are saying that that is about communicating internally as well as externally.

Jack Perry: Absolutely.

David Whitton: I want to pick up on a point that you made about SDI. When will the new chief executive be appointed?

Jack Perry: The appointment is imminent. I hope that there will be an announcement shortly.

David Whitton: When the new chief executive is appointed and given what you said in answer to Christopher Harvie, will SDI have a new focus on Europe rather than America, and will it operate slightly differently?

Jack Perry: I certainly expect the new chief executive to have an open mind about how we operate. However, the new international framework is in place, and SDI has continually evolved. We have dramatically changed our overseas representation, and we continually review the operations of our overseas offices. There is a renewed emphasis, which I expect to continue, on the internationalisation of Scottish companies. I expect there to be a shift in the balance between inward and outward investment. North America remains very important to us. That does not mean that Europe is unimportant but, in terms of figures for foreign investment, North America is the largest investor by far. With regard to our priority industries, the United States is 83 per cent of the world life sciences market. Everything has consequences; we could spend loads more on this stuff. Again, though, it is a question of priorities.

David Whitton: You say that you could spend loads more. I assume that you have had a discussion about that with the Cabinet Secretary for Finance and Sustainable Growth, and that he said that you cannot have any more.

Jack Perry: We go through all our priorities in developing our budget and business plan, and we reckoned that we got the right balance.

David Whitton: Is that what you reckoned was the right balance or what the cabinet secretary reckoned was the right balance?

Hugh Hall: It is what we reckon is the right balance within the funds that have been made available to us. One of the things that we are working on in the course of the year—

The Convener: Mr Hall, you could become an MSP with an answer like that.

Hugh Hall: The acting chief executive of SDI, Lena Wilson, had a successful trip to India just in the past couple of weeks. When she came back to the office she said to me, "There are great opportunities here. We need to look at increasing the resource. Can you make some money available?" The challenge for people such as me and Stuart Patrick is to consider our business and ask, "Can we carve out some more money? Can we do less of certain things? Can we reduce the overheads?" We will seek to free up as much resource as we can to invest in particular activities.

David Whitton: But it comes back to what Mr Perry said about having less than 1 per cent of the Scottish budget. If your task is to grow Scotland's economy, and you are telling us that there are great opportunities to be had in India, China or elsewhere, but you are not being given the budget, you are fighting with one hand tied behind your back, are you not?

Jack Perry: Let me put it this way: I suspect that you will not find that anyone who comes before you will say that they want less money. For example, I suspect that people from the areas of health or education would say the same as us. Do I have a great big wish list? Of course I do.

David Whitton: Right.

Jack Perry: The budget is the budget. We have made our priorities and that is what we will deliver.

David Whitton: On the question of the imminent appointment of the chief executive, will that be this week, next week or next month? Have you gone through an interview process and whittled the choice down to one person, or will it be an in-house appointment?

Jack Perry: I will just say at this stage that the appointment is imminent. I am happy to give the committee notice of when that will be.

The Convener: We can come back to that, David.

Gentlemen, one of your key industrial sectors is the creative industries. I am interested in the issue

of creative Scotland, particularly the Creative Scotland Bill. The bill's policy memorandum states that creative Scotland will have a cultural and economic remit. Has there been any transfer between Scottish Enterprise and creative Scotland in respect of its economic remit, or is any transfer planned when that body is up and running?

Jack Perry: To my knowledge, no transfer is planned for that remit. We support many sub-sectors of the creative industries substantially. On 19 March, evidence was provided to the Education, Lifelong Learning and Culture Committee that detailed the extent and nature of that investment. I am happy to provide a copy of that evidence, although I am sure that the committee has access to it.

The creative industries remain an important sector for us to continue to support. Of the 13 sub-sectors of the creative industries that the National Endowment for Science, Technology and the Arts identified, we heavily support interactive leisure software, publishing, software and computer services, television and radio. We support designer fashion through our textile team and design businesses through our account management. We also support advertising and architecture. We are not big into art and antiques, crafts, music or the performing arts, which will belong—properly—to creative Scotland. However, we provide much for the important sub-sectors in our priority industry of digital media.

The Convener: Is it fair to assume that, because ministers have signed off the operating plan—you gave a clear answer on the record about that—ministers absolutely endorse the allocation of responsibilities and budgets to Scottish Enterprise that you describe?

Jack Perry: Ministers have signed off our business plan.

Lewis Macdonald: We talked about local economic regeneration, but we referred only in passing to national projects. Is Ravenscraig a national regeneration project?

Jack Perry: Ravenscraig remains one of our commitments at the moment. It is a long-term project. How it evolves will be subject to further negotiation and discussion. We have a current commitment, on which I ask Hugh Hall to elaborate.

Hugh Hall: We have a current legal commitment of about £4 million, but the forward commitment is even greater. We are currently committed to that but, as with all our investments and projects, we will keep that under review. We will look to discuss the shape of our future role with local councils and the other partners.

Lewis Macdonald: Does a group of projects of which we should be aware lie in the grey area between clear forward commitments by you and clear local authority responsibilities?

Hugh Hall: Several projects have a regional dimension, so they lie in that middle space—the URCs are the obvious examples. We are involved in and continue to be committed to the URCs and we work with local authorities to ensure successful outcomes. We are and will continue to be in that regional space.

Dave Thompson: Jack Perry mentioned that Scottish Enterprise has retained all its local offices and that they have more staff than before. Has the increase in the number of staff in those offices been major?

Jack Perry: We now have 1,050 staff. I cannot give exact numbers but, before all the transfers, we had about 600 staff in Atlantic Quay in Glasgow. We are considering a redeployment plan to reduce that number to about 150, so the remainder of those staff will be redeployed to local offices around the country. Does that mean that all 12 local offices will have more people than before? Not necessarily. However, overall, a much higher percentage of our total staff will be deployed in local offices.

Hugh Hall: We will not have a settled position until the end of this financial year, because a major component is the withdrawal of most of our staff from Atlantic Quay on a rolling programme over Christmas and into early next year.

I make it absolutely clear that when we talk about retaining a local presence, that is not a firm commitment to keep all our local offices open in the future. One idea that we are considering is co-locating with local authority services and other non-departmental public bodies, such as VisitScotland. Retaining a local presence does not necessarily mean retaining a physical office.

Dave Thompson: What level of delegated authority do your local offices have? Have you increased it or do you plan to increase it?

10:30

Jack Perry: We have a system of delivery agreements which, in effect, subdivide the budgets so that local offices can go ahead and deliver. Do you want to expand on that, Hugh?

Hugh Hall: I think that that covers it. We have a scheme of delegation. A sum of money is agreed at the start of the financial year. The account managers, local directors and so on can commit up to that level of expenditure. That is broadly in line with the scheme that we had before, although there are no longer local boards.

Dave Thompson: To what amount can your local managers commit? Is it 10 grand, 20 grand, 100 grand or another amount?

Hugh Hall: They can commit to anything up to the level of the budget that has been set.

Dave Thompson: So they could give somebody the whole budget.

Jack Perry: They cannot do that. If something is in the delivery agreement, they can go ahead and do it—they do not need further authority—but they cannot spend above what is in the delivery agreement in their area. Local boards could approve projects up to £1 million. As Hugh Hall said, that level of authority does not exist now. That responsibility now rests with the executive board at Scottish Enterprise.

Dave Thompson: Do you have a specific figure for any local area office?

Jack Perry: No. The offices themselves are not operating entities as such; they operate within the region. They are not separate business units. Within the office there will be people who are responsible to an industry team, people who are responsible to a regional team, and people who are specialists who are responsible to an infrastructure innovation team. That is the matrix that we have created. The budgets and so on will be defined within those specific areas. If something is in the delivery agreement for a specific area, the offices can go ahead and do it.

The Convener: Dave Thompson asked earlier about the numbers in the organisation. If my arithmetic is right, 150 staff members are staying in Glasgow and, therefore, 450 will be moving around Scotland. Is that correct?

Jack Perry: The number might be slightly less than that. I do not have the breakdown with me. We had about 650 staff members in Atlantic Quay before the transfers. I do not have the split of the number of transfers out prior to the redeployment.

The Convener: If it is possible to furnish the committee with the detail of that, we would all be interested to see it.

Jack Perry: We can certainly do that. What Hugh Hall said is correct: there is now a rolling programme. The remaining 150 or so staff members at Atlantic Quay will co-locate with the Scottish Government and Skills Development Scotland; the Scottish Government is moving out of Meridian Court and Europa house in Glasgow.

The Convener: It is self-evident that you have a big human resources task in respect of people moving away from Glasgow who have families, mortgages and schools to consider.

Jack Perry: We hope that many will redeploy to offices within a commutable distance. We are

moving out our information technology support unit, which is a definable business unit. We have a number of staff who commute from long distances, so we hope that they will be able to work much closer to home. We expect that a number of people will move to Edinburgh and the east as well.

The Convener: So, on decentralisation from Glasgow, there will not be decentralisation and most people are expecting to be able to commute to their place of work.

Jack Perry: We certainly hope so. We do not want to spend huge sums on that.

Marilyn Livingstone: I have a question on the budget, but I also want to follow up on what the convener asked. In Fife, there were about 25 to 30 staff and now there are 10 to 12. My concern is that we have lost local expertise. We have lost good people such as Joe Noble—you know the people whom we have lost. The situation will be the same across the country. In redeploying people, you lose expertise, which is a worry to the local authority and many key stakeholders in my area. I just wanted to put that on the record.

I want to follow up Dave Thompson's point. You said that regional directors will have no flexibility outwith the agreed budget. Previously, if there was a new project coming up in Fife, it could go to the board with a budget set at, for example, £1 million, but there was flexibility in that. What you are saying is that regional directors now have no flexibility and that everything will come back to Atlantic Quay.

Jack Perry: Under the old regime, boards could approve projects, but they could not go ahead if there was no budget. Projects were always subject to affordability and that continues to be the case. We are actively encouraging local teams and our industry teams to develop new projects and to fill the pipeline. We welcome competition for funding and we want to support the projects that will create greatest added value for Scotland.

Marilyn Livingstone: Will those projects have to come back to Atlantic Quay for approval?

Stuart Patrick: The fact that we are operating with a regional structure means that we have a managing director of regional operations. He—

Marilyn Livingstone: Or she.

Stuart Patrick: It happens to be a he, but you are right. He holds a high level of delegation, which he can decide how to apply with his regional directors in a management team. Although the regional directors will not have the same style of delegated authority that they had previously with LEC boards, they will operate as a management team to exert that delegated authority with the managing director of regional operations.

Marilyn Livingstone: I would appreciate some written information on that because it is important.

I come back to the budget. The *Sunday Herald* stated in March 2008 that £12 million was transferred from Scottish Enterprise to COSLA for the business gateway—I can understand that—and £25 million was transferred to COSLA for local economic development. You have explained the figure: £12.5 million for local economic development and £12.5 million for urban regeneration. However, COSLA's delegation stated in evidence to the committee in November that it understood that the budget for local regeneration

"could be around £100 million"—[*Official Report, Economy, Energy and Tourism Committee*, 28 November 2007; c 335.]

I had heard that the figure had dropped and that the negotiations would be around the figure of £50 million. I know that you will tell me to ask COSLA, but is there still a big difference between Scottish Enterprise and COSLA on the figure? I would appreciate a straight answer. It appears that you think that the figure should be £12.5 million, but COSLA thinks it should be more.

Hugh Hall: We have agreed the transfer of funding. We have struck what I think is a fair and reasonable deal and that is the resource that will be transferred.

The Convener: We will ask COSLA in a few minutes.

David Whitton: I will pick up on the point that Lewis Macdonald raised about Ravenscraig—I want to understand the position. You say that the Ravenscraig development is a national priority and that you are fully committed to it. Phase 2 is the big-spend part in which a new railway station, railway sidings and factories will be built, as well as housing. We have been told in evidence that if the phase 2 commitment from Scottish Enterprise does not go ahead, the development will just become a massive housing estate. Are you totally committed to phase 2 of Ravenscraig—yes or no?

Hugh Hall: We are committed to working with our partners in Ravenscraig. We have continued involvement and a legal commitment of £4 million, which we will honour. As I said, the future commitments are substantial, so we will need to consider what our continuing involvement will be.

David Whitton: That does not sound like a 100 per cent commitment to me.

Hugh Hall: As with all our forward commitments, particularly when they are on such a scale, we keep it under review, but we continue to be involved and committed.

Lewis Macdonald: I was not aware of the position of Joe Noble at Scottish Enterprise Fife, although I am aware of the position of Jennifer Caw at Scottish Enterprise Grampian. How many of the 12 chief executives of local enterprise companies have now left the organisation?

Jack Perry: Nine out of 12 have left.

Lewis Macdonald: That is a significant loss of local expertise.

Jack Perry: The largest single element by far of our severance programme, which was part of our restructuring, was at director and senior manager level. We have taken out substantial layers of management. That is on top of a severance programme for 40 directors and senior managers a year ago. Our staffing model was very top heavy. You mentioned good people who are extremely capable and who did a very good job for us but who have chosen to go off and do other things based on the availability of a severance programme. We were limited to voluntary severances and had to make some tough choices about whom we would allow to go.

Lewis Macdonald: The loss of local expertise caused a lot of concern when the changes were announced last year. Might Scottish Enterprise come back to us again in a few months' time to tell us how that local expertise has been replaced?

Jack Perry: I am absolutely confident that we have very capable people in all the new leadership positions in the organisation. It is a different structure from that which we operated previously, but I am absolutely confident that our regional directors are extremely talented and capable people. The people in our new infrastructure team, with the leadership that they show, are also extremely capable. Although we were sad to lose experienced people who did a very good job for us, the new team is highly capable.

The Convener: Thank you for coming this morning. I am sure that we will return to the issues that we have discussed, not least during the budget process later in the year. We are grateful for your time and evidence. We will look out for the other information in due course, when your organisation has a chance to provide it to the committee.

Jack Perry: I will be happy to provide it.

The Convener: Let us move straight to the second panel of the morning on the enterprise network reform and transfer of functions. We will wait while the traffic jam of witnesses sorts itself out.

Having dealt with Scottish Enterprise—that might sound a bit pejorative—we turn now to Highlands and Islands Enterprise. We are pleased to welcome this morning Sandy Cumming, the

chief executive and Sandy Brady, the director of strategy. Mr Cumming, you are welcome to say a few words of introduction, but as I asked Jack Perry to do, it would be helpful if you would cover budget numbers and the organisation's new shape and responsibilities compared with the previous position.

Sandy Cumming (Highlands and Islands Enterprise): Thank you and good morning to everyone. When we last appeared before the committee back in November, we affirmed our commitment to change and our enthusiasm to refocus our efforts to deliver sustainable economic growth across all parts of the Highlands and Islands. Today we are fully focused on three activities. First, we will support high-growth businesses in key sectors and, by so doing, raise regional and national growth. Secondly, we are very much involved in creating the infrastructure and conditions to improve regional competitiveness. Thirdly, and importantly, we will be strengthening communities, especially in the fragile parts of our area.

Today I can report that HIE's reorganisation is largely complete. We have reshaped our structure, we have reduced our workforce through voluntary severance and we have successfully transferred our careers function and individual training and skills programmes to the new agency, Skills Development Scotland. We have also made changes at board level. The HIE board is now slimmer; we have eight members instead of 12. I will be happy to take questions on those changes.

During 2008, we continue to work very closely with the local authorities, which are our key partners. I will highlight our work in the development of single outcome agreements in the Highlands and Islands. We believe that it has been very productive and we look forward to further involvement with single outcome agreements. We continue to be very involved in community planning and we are taking every opportunity to co-locate with our local government colleagues and other public sector bodies. We continue to develop the business gateway approach for the Highlands and Islands in partnership with COSLA and the local authorities.

Our chair, Willy Roe, has taken opportunities to meet—in some cases—full councils, but he has certainly met senior members of local authorities throughout the Highlands and Islands to communicate the changes that are taking place in HIE. He will complete that task with the remaining local authorities over the next six weeks. Our organisation remains highly ambitious for the Highlands and Islands and we believe that we are in good shape to deal with the opportunities and challenges that lie ahead.

As regards the specific changes that the convener asked about, among the biggest changes has been the change in staff numbers. Until the end of March we were an organisation of 550 full-time equivalent staff; today we are moving towards having 350 staff. That is a significant reduction. Our resource budget last year was close to £132 million and this year it will be £92 million, which in cash terms means a shift from £118 million to £78 million.

10:45

With regard to specific changes that are outlined in the operating plan, we no longer have responsibility for careers advice, national training programmes and individual skills grants. This is also a transition year for business advice and information. Over the course of the year, we will lose that responsibility as we develop the business gateway model for the Highlands and Islands. However, it is important that we retain that responsibility until we can say—and until the local authorities are confident—that the new model is ready.

Before I conclude, I will highlight three other significant changes for HIE. First, we are introducing the account management model that Scottish Enterprise explained earlier. Our previous approaches were not similar: this time we are very much going down the same route. Secondly, as the operating plan makes clear, we have refreshed our approach to strengthening communities. Finally, at the beginning of June, we will introduce our new policy of small business grants.

The Convener: You made two references to continuing to develop the business gateway model and you said that this year—meaning, I presume, the current financial year—would be a transition year. My understanding was that the Government wanted to put business gateway out to competitive tender on a pan-Highlands and Islands basis, the practicalities of which, as you know, I had extreme concerns about from a constituency point of view. Yesterday, I received a letter from Jim Mather saying that, after three and a half months, the Government still did not know what it was going to do on this matter. Are you in a position to tell us more about how the business gateway will be delivered in the Highlands and Islands?

Sandy Cumming: Discussions are on-going. We are here to take forward the final decision on how the model will be designed and delivered in the Highlands and Islands.

Over the past six months, we have spent a lot of time getting to know the business gateway product and have, in the course of that work, established very good relationships with the local authorities, COSLA, the Scottish Government and Scottish

Enterprise. We have created a business gateway liaison group and, after making a number of visits to find out how the gateway operates in the Scottish Enterprise area, we have a clearer understanding of the current system. However, you are absolutely right to say that the final decision on this matter has yet to be made.

The Convener: Does HIE have a view on the competitive tendering proposal? Would you, for example, prefer the gateway to be tendered in areas where there are business interests? That might be possible in Moray and the wider Inverness area, but it simply will not work in some of the islands. How might the approach be developed to ensure that we achieve what we all want, which is effective operation of the business gateway across the whole area?

Sandy Cumming: Our organisation fundamentally believes in the value of procurement. We think that it is healthy, provides value for money, is very transparent and is competitive. As I made clear when I previously discussed the issue with the committee, a private sector company already delivers throughout the Highlands and Islands, on our behalf, not what might be called business gateway but business advisory services that are broadly similar to what is delivered under the business gateway.

The Convener: Good value in procurement does not need to take place on a pan-Highlands and Islands basis. Surely it can be developed more locally.

Sandy Cumming: With procurement, there is the opportunity to have either a single contract or a more flexible contract that takes account of the various subeconomies in the Highlands and Islands. As I have said, discussions are on-going, and we await the final decision of the Scottish Government and COSLA.

The Convener: What in the meantime is happening to provision of local practical business advice in, say, Inverness, Kinlochbervie and Baltasound?

Sandy Cumming: I am pleased to say that it is business as usual. The approach that was enjoyed and valued by people until the end of March continues. We still have the contract with a company called Development Partners, which provides one-to-one business advice and information.

The Convener: When do you hope to hear an announcement on the final shape of what will exist in the future?

Sandy Cumming: The decision will be made fairly soon. However, given that this is a transition year, the new model might not be in place until towards the end of the current financial year. I

realise that that is a long time, but the key decision that we await is on whether the model will be procured uniformly throughout the Highlands and Islands.

The Convener: Given the letter that I have received from the Minister for Enterprise, Energy and Tourism, that decision will be made by ministers.

Sandy Cumming: That is my understanding.

David Whitton: I know that the business gateway is a new system for you, but are you satisfied that the changes that you are being asked to introduce will deliver what you expect in respect of helping new businesses to grow in the Highlands?

Sandy Cumming: Yes, I am. Some of our senior staff spent a lot of time examining the business gateway model, which has a lot of excellent qualities. I also agree with Scottish Enterprise that the opportunity clearly exists for continuous improvement, so what we want to come out of the exercise is an even better service for start-up businesses that are seeking advice and information in the Highlands and Islands. Whether they are located in Shetland, Campbeltown, Keith or the Western Isles, we want something better than what existed before.

David Whitton: My knowledge of the set-up in the Highlands is not as good as that of other committee members. What is happening in the local authorities on delivery of the business gateway? Are staff going out from Highlands and Islands Enterprise to work in local authorities or will it simply be a new start for the local authorities to provide the service?

Sandy Cumming: In many ways, that decision is yet to be taken. Like Scottish Enterprise, we have identified 15 posts in our organisation that currently involve management and delivery of business advice, information and new start-ups. Those have been ring fenced and once the final decision has been taken and the new model is in place we will transfer the relevant number of staff into it under the TUPE regulations. At the moment, there are about five current members of staff but, as with Scottish Enterprise, another 10 would probably transfer to make the service equivalent to the one that we have today. That would happen under the budget transfer value that is yet to be finally negotiated and agreed.

David Whitton: Are you transferring staff or are you also giving local authorities in the Highlands cash to employ staff to provide the service, as Scottish Enterprise seems to be having to do?

Sandy Cumming: The transfer value will go towards delivery of the contract. We are yet to decide whether there will be more than one

contract, to return to the convener's first point. Some of the service might be delivered in-house by local authorities and some might not. I am not in a position to say how it will look finally, but we will certainly transfer the appropriate value to pay for a business gateway that operates successfully throughout the Highlands and Islands.

David Whitton: Are you happy that the new business gateway set-up will be better than the one that you had before?

Sandy Cumming: Yes. I have confidence that it will evolve into a better service than we had previously in the Highlands and Islands.

Brian Adam: You have worded your responses carefully. You said that you agree with Scottish Enterprise about how aspects of the business gateway will be delivered and you have indicated that the current model is not quite what you want. With which aspects of the models that you and Scottish Enterprise currently have are you unhappy? Where do you disagree with Scottish Enterprise on how the business gateway should be delivered to meet the needs of the Highlands and Islands, for which you have responsibility? What is different about the Highlands and Islands that means that the model is not working?

Sandy Cumming: Ours is mainly, but not exclusively, a one-to-one service. If a small business based in any part of the Highlands and Islands is in need of business advice at the moment, it can simply contact our area offices—formerly the local enterprise companies—which will arrange for our contractor to have a one-to-one business advice discussion on-site.

The Scottish Enterprise model uses the interesting concept of one-to-many discussions; it provides opportunities for people to come together in workshops, seminars and discussion groups. It would be nice to try to develop that further in the Highlands and Islands, but one of the problems for us—I should not call it a problem; it is a challenge—is geography. Bringing people together into a one-to-many situation in the geography of the Highlands and Islands is not easy, but it would be good to try to develop that further. I see an opportunity in that but I also very much welcome the opportunity to use the national website and national marketing campaign, which will add value to the current service.

Lewis Macdonald: Will you remind us briefly why you did not adopt the business gateway model in the Highlands and Islands in the past?

Sandy Cumming: The business gateway is relatively new. We have been involved with business advice and information since 1965. We had a model that was designed locally and addressed the specific needs of local communities. That was particularly sharpened

from 1991 onwards with the formation of local enterprise companies. We always maintain a close dialogue with Scottish Enterprise to try to achieve better practice for the businesses that we are serving in the Highlands and Islands.

Lewis Macdonald: Is there a risk, particularly in the peripheral areas, that a business gateway model will be less relevant to local circumstances than the model that you have operated until now?

Sandy Cumming: I do not think so. I am confident about the new approach for when it finally kicks in. Taking as an example the convener's community in Shetland, Shetland Islands Council's economic development department and our area staff will be co-located. We have to find a new formula for delivery of business services to the business community in Shetland. That formula will evolve over time. Physical co-location, and sharing and adopting a common strategy locally, can make the model work quite creatively.

Lewis Macdonald: You talk about the evolving business gateway model, involving 15 staff who have already been doing business advice work in your previous model. On the other hand, Scottish Enterprise is talking about six contract managers for the whole of lowland Scotland. Is there a significant difference between your understanding of what you are transferring and Scottish Enterprise's understanding of what it is transferring?

Sandy Cumming: The difference is that Scottish Enterprise's delivery has been virtually totally outsourced, whereas ours has not: it is in-house. If the committee wants further information on the differences, I will be happy to provide it.

Lewis Macdonald: Other than those 15 potential transfers, does the reduction of 200 in staff that you have reported to us include people who have been providing the advice in the past but are no longer doing so?

Sandy Cumming: No, it does not. The reduction of 200 is largely made up through our voluntary severance scheme. At the end of March, we released 59 people from employment with Highlands and Islands Enterprise, and 150 full-time equivalent posts were transferred to Skills Development Scotland. We have yet to settle on the figure. If we are back before the committee next year, we will have seen a reduction in staffing that will reflect the fact that the business gateway model will be in place.

Lewis Macdonald: Will that be somewhere between five and 15?

Sandy Cumming: Yes.

The Convener: On Lewis Macdonald's point about budget, when you gave helpful evidence in

November, you said that £2 million was the figure. Is that £2 million by definition somewhat different from the five to 15 range that you have just described, or am I getting the two things mixed up?

Sandy Cumming: The five to 15 refers to staff numbers.

The Convener: I apologise. What about in terms of budget?

Sandy Cumming: That is still under discussion. As always, we are being very transparent in our discussions with local government; therefore the figure that we are still using is in the order of £2 million. The amount is yet to be finalised.

Dave Thompson: Morning, gentlemen. I want to pick up on infrastructure. In your written evidence, you describe infrastructure—the physical connections—as being pivotal. Under “Linkages”, you refer to “step-changes in access”. You go on to describe the current infrastructure as “inadequate, outdated or limited”. On a range of one to 10, with 10 being the most important, how important is the infrastructure in the Highlands and Islands to economic development?

Sandy Brady (Highlands and Islands Enterprise): Infrastructure is hugely important. In the Highlands and Islands, the improvement in the physical infrastructure in all its forms—in transport, in telecommunications and in the field of economic development more generally—has been tremendous over the past 25 or 30 years. However, as the quality of provision has risen, so have expectations and aspirations in the region for higher levels of infrastructure investment. We have welcomed all the improvements in transport, but the work goes on to try to ensure that the key link roads—the A9, the A96 and the A82—are upgraded continually. That is a long-term piece of work for the region.

We have invested a lot of money in broadband and in trying to ensure that we have spread broadband out as far as we can to all the peripheral parts of the Highlands and Islands. We monitor the situation closely. If the spread continues, we will not want to spend a lot of money, but we will want to ensure that the benefits of digital communications are shared among the people, many of whom are getting access for the first time.

Over the years, we have also invested heavily in business infrastructure, of which the Centre for Health Science in Inverness is a good example. We will continue to try to provide infrastructure that we think will transform the prospects of the Highlands and Islands economy.

11:00

Dave Thompson: You did not answer the question about a score from one to 10. I take it that “tremendous” means 10.

Sandy Brady: A generation ago, some aspects of Highlands and Islands infrastructure were at one, but we are probably up at around six or seven now. Huge improvements have taken place, but more needs to be done.

Dave Thompson: What can HIE do to invest in infrastructure, as opposed to requiring Government to come in with investment?

Sandy Brady: Our investment is restricted to areas where we have an economic infrastructure mandate. Traditionally, we have provided offices and factories, and we are reviewing how we do that. In other areas of infrastructure, our role is more to create the case for investment. We realise that many projects are expensive and have to be set against the prioritisation of major national projects. However, we try to make a case to show the economic benefit of, for example, further investment in road and rail infrastructure in the region. We make the case through the Highlands and Islands transport partnership, for example. Tough choices have to be made in heavily capital intensive projects, but we try to make a case for the projects that will transform different parts of the Highlands and Islands in different ways.

Dave Thompson: You say that you try to make a case, but I take it that you are making the case. For instance, there will be the transport review later in the summer. You also mentioned the A82, the A96 and the A9, which goes all the way up to Caithness. Those are crucial developments. Without the infrastructure, all your best efforts to improve the economy of the Highlands will not succeed. How strong are your representations to Government?

Sandy Brady: We make representations in the strategic transport review and we will continue to do so, both directly and through HITRANS. We also have an input to the national planning framework review, to try to make a wider case for other forms of infrastructure development, such as housing development and planning initiatives that will help to take the Highlands and Islands forward. The field is wide.

Continuous investment will be necessary over a long period. Many of the great improvements of the past were achieved not over two or three years but over a much longer period. We have to be reasonable in making the case for what we believe to be the most important priorities for the region.

Sandy Cumming: Sandy Brady has explained very well the issues of telecommunications and roads infrastructure, and of HIE's role in the

business environment. I add that one of the key bits of infrastructure for the Highlands and Islands is the UHI Millennium Institute. I hope that this committee and others will acknowledge the contribution that we have made in presenting to successive Governments the case for a university for the Highlands and Islands. We have made that case continually now for 15 years, and we are very encouraged by recent progress.

Dave Thompson: You mentioned procurement earlier, and you will be aware that many councils are moving towards a more central, Scotland-wide procurement system. How can you assist local companies in the Highlands to feed into that central procurement, not just to get contracts from Highland Council, Moray Council and the other local authorities in the Highlands and Islands region but to help the companies to tap into Scotland-wide contracts?

Sandy Cumming: Part of the whole concept of business advice is to get companies—whether small, medium-sized or large—ready to take advantage of such procurement opportunities. We hold one-to-one meetings or workshops, at which we try to find opportunities for collaboration or for joint bidding by companies. The task is not easy, but it is critical. Many companies would prosper greatly if they could somehow win some of those procurement opportunities. Small, medium and large companies that are based in the Highlands and Islands will, as part of our account management development, have the opportunity to grow by securing some of those opportunities. Our responsibility will be to work with them to help them to create the capacity to be in a strong position to bid.

Dave Thompson: I suppose that comes back to the fundamental point about links. If those companies are going to supply people in other parts of Scotland, they need good road, rail and air links with the rest of the country.

Sandy Cumming: I agree, but there are examples throughout rural parts of the Highlands and Islands—and, I suspect, throughout all of rural Scotland—of it being possible for companies, with extremely competitive modern management systems, to get opportunities. I am sorry that I cannot give a specific example, but there are opportunities for businesses that are based in the Highlands and Islands.

Christopher Harvie: I will register a dissenting view on the notion of expanding infrastructure, using as an example the growth of the Irish railway system in the 19th century. By the end of the 19th century, Ireland had the best railway system per capita in the whole of Europe, which—as Joe Lee, the economic historian of 19th century Ireland has pointed out—enabled British imports to take over practically the entire Irish manufacturing sector.

The sector in Ireland dropped from 18 per cent to 12 per cent over the century.

I wonder whether it would be worth while analysing infrastructural improvement, to work out how much it encourages local enterprise. Inverness is famous for many good things, but it is also famous as the town in Britain that is most associated with outlets of one highly centralised supermarket chain. One point that I appreciated about the old Highlands and Islands Development Board was that it was based on planning theories, one of which was to examine the integrity of the local community. I am not sure that infrastructural investment always meets such criteria.

The Convener: Does that fit into strengthening communities? Gentlemen, could you answer in that context?

Sandy Cumming: I disagree with Christopher Harvie. Our 40 years of experience—hands-on experience for most of that time—in the Highlands and Islands tells us that investment in infrastructure has been incredibly progressive for the area. In my lifetime, I have seen the three bridges and the transformation of the road infrastructure, and although there has perhaps been less progress on the rail side, there has certainly been progress in terms of the ferry and air services. Sure, we would like even more, because we are that sort of people, but the modernisation and the opportunity that it has brought over the period has been incredible. We recently surveyed what people and businesses in the Highlands and Islands really want in terms of economic development, and infrastructure investment was right up there—that is what they are looking for.

The Convener: Can I take you back, Mr Cumming, to the evidence that you gave in November, on property, in the context of your operating plan? You helpfully said that a review was under way, that HIE was considering how much property it should own, and that some property might be sold to supplement the budgetary changes. Can you bring the committee up to date on that exercise?

Sandy Cumming: Yes. We have gone through a fundamental examination of our property strategy, and at a meeting earlier this year the board adopted the new strategy. There is to be one final examination before we introduce the new arrangements. Basically, we want the private sector to play a much stronger role in terms of property infrastructure in the Highlands and Islands.

I offered the view at the previous committee meeting that I attended that we could save up to £10 million a year. In the current financial year, because policies continue in some way and it is

difficult to stop what was happening before, we believe that we will invest some £5 million less on property that we did last year. We are seeking to introduce the new policy from the next financial year, to get better leverage from the private sector, wherever possible, in providing some properties that traditionally have been funded 100 per cent by HIE.

The Convener: In considering your strategy, will your board make a judgement about market failure and the geographic areas where, for reasons that we understand, it cannot happen?

Sandy Cumming: Absolutely. We recognise that if we had had discussions 20 years ago, there would probably have been market failure throughout the Highlands and Islands, but that is not the case today. There is a substantial property market in the inner Moray Firth, and the private sector should be encouraged and not crowded out from providing property in that locality. A lot of the early work will therefore be focused on the inner Moray Firth area. However, we will see little change in that direction in our fragile and island communities.

The Convener: Thank you. The Cairngorm funicular is in the papers again this week. Is HIE's financial exposure on that project included in the figures that you have presented to the Government and Parliament? Will we see any more about that? You might tell us that what was reported on Monday was not particularly accurate, but do the numbers that were reported mean the end of that story?

Sandy Cumming: In many ways, nothing has changed. We have always been the owners of the funicular railway system, which really began in 2001—correct me if I am wrong—and it has been operated on HIE's behalf by CairnGorm Mountain Ltd. The responsibility for the European funding, for example, has lain and continues to lie with HIE as the Government agency responsible.

What is different at the moment is that, with effect from last Friday, we have taken over ownership of the operating company and we are going to be owners and operators until such time as we feel ready to go into the market to invite interest in a retendering process for the operation of the facility. That is where we are. I do not believe that HIE's financial exposure has increased during that period of time at all.

The Convener: Is your operating plan and the scenario that you have just painted covered by the budget?

Sandy Cumming: Yes. We budget for expenditure in our operating plan. The funicular has been operating for almost seven years, and we are going to undertake the maintenance work and so forth that needs to be carried out this year.

The cost could be of the order of £1 million, and the operating plan that you have before you provides for that.

David Whitton: Sticking with property, how are the negotiations for getting a co-tenant for Cowan house going?

Sandy Cumming: They are going well. I thought that I would have been able to confirm the co-tenant, but I regret that I am unable to do so. We are close to confirming a deal with another public body, which will transfer the best part of 50 to 60 people into Cowan house. We are also in active negotiation with another public body that might take up space for 20 people. Since 1 April, Cowan house has been co-shared between some Skills Development Scotland staff and HIE staff. Progress is good, but I am sorry that I cannot confirm the new subtenants just yet.

David Whitton: This seems to be a day for me not quite getting announcements, but we can look forward to one in the near future.

What is the state of play with HIE's district offices? Will some of them have to close? You mentioned Shetland, where council staff and HIE staff are working together. Does that mean that you have shut an office there and moved into the council's office? How does that work?

Sandy Cumming: As part of the continuous improvement of our physical office environment, we have been through a three-year programme to examine the number of offices that we need to deliver our services, and we have addressed every single co-location opportunity. In Shetland, we were fortunate, and there was good planning, because we were approaching a break point in our lease, so we were able to exit from the lease and achieve a long-held ambition to co-locate with the local authority.

We are still going to have an office presence in each of our area business units, which were local enterprise company units. There will be an office in Shetland and it will be co-located with the council. In Orkney, we are close to agreeing an arrangement to co-locate with the council and potentially another party. In the Western Isles, we anticipate that some local authority staff will transfer into our office under co-location. We have a new opportunity in Golspie where Scottish Natural Heritage is leading the development, and the office will include HIE, SNH and various other public bodies.

We are very focused on co-location at the moment. As Hugh Hall, my colleague from Scottish Enterprise, said, there might be fewer offices but there will be a strong presence in each of our area delivery units.

11:15

Dave Thompson: Has the number of staff in your area offices increased? What delegated authority do they have?

Sandy Cumming: To date, we have not increased the staffing of our area offices. We are taking a hard look at the model to see how we can do that. As you know, we are a highly decentralised organisation. We state in our operating plan that we are moving towards basing no more than 30 per cent of our staff in Inverness. That is not the situation at the moment, but we are working towards that target. We want 20 per cent of our staff to be based on islands. Again, that is aspirational, but we intend to get there. That is the position with the deployment of staff.

On delegated authority, I am pleased to report that we have made a change. Under the former structure, our area directors, as they were called—they were previously LEC chief executives—had delegated authority to invest up to £100,000. We have introduced a new policy of £125,000, which is significant, because it gives our front people greater authority. The people who lead our efforts in localities now have the authority at their own hand to approve investment of up to £125,000 in any single project.

Dave Thompson: Good.

Lewis Macdonald: Quite a lot of the people who left your employment are now staff of Skills Development Scotland and are co-located with you. When you gave evidence previously, you had a question about HIE's future role in workforce development and how it would be articulated with the creation of Skills Development Scotland. How has that worked out? How is co-location working in practice? Are the two organisations growing in separate directions?

Sandy Cumming: The position on workforce development is clear: we are responsible for workforce development in the businesses that we account manage. Discussions continue between HIE and SDS on what will happen with workforce development in the businesses that we do not account manage. That work is in progress, but there is absolute clarity about the position with our account-managed businesses.

We are also responsible for developing the learning infrastructure in the Highlands and Islands. Earlier, I gave the example of the UHI, in relation to which nothing is changing. We already have a great working relationship with Skills Development Scotland in relation to who does what, where and when. Some things can be agreed only when the business gateway model is finally confirmed, because that is central, including the question of where it refers people for assistance and so on. That work will evolve during the year.

On your question about co-location, nothing has changed. In most of our locations, we are co-located with Skills Development Scotland. The one difference—I look to the convener again—is in Shetland.

The Convener: Well, it is the best part of Scotland.

Sandy Cumming: Indeed.

In Shetland, the Careers Scotland people were not co-located with the LEC, and a new facility is coming forward for SDS. In most areas, however, the bodies are still co-located, and at the moment there is no indication that that will fundamentally change.

Lewis Macdonald: Concerns have been raised with the committee about the future of tourism training because of the loss of modern apprenticeships. That will be of some interest to you. Recently, David Whitton and I met Craig Thompson at Aviemore to talk about the potential for a Scottish hotel school. I know that you have been an active partner in developing that proposal. Will you continue to have responsibility for that project, will you hand it over to Skills Development Scotland, or will both agencies have an interest in it?

Sandy Cumming: Both agencies will have an interest. The project will be an important piece of learning infrastructure, so we must ensure that we get support from all the key partners, including not only the private sector, which endorses it as a wise move, but public bodies. We will then need to sort out who will fund it and who will take responsibility for enabling this important new piece of learning infrastructure in the Highlands. I recognise that the model is new, but we will not drop the ball. We have excellent relationships, particularly with SDS, in relation to such projects.

Lewis Macdonald: So you both have an interest in the project but there is no clarity yet about which body will fund it, if public funding is involved.

Sandy Cumming: Both agencies have a role in supporting new projects such as the hotel school, but I do not have the detail.

The Convener: I have a final question for Mr Brady. You gave a helpful answer to Mr Thompson's question on infrastructure. My question is on broadband. Your operating plan states:

"Public intervention may be necessary to ensure that rural areas such as the Highlands and Islands do not lag behind."

Is HIE doing any work on the gaps? Successive Governments, rightly, have invested to try to deal with market failure, but some areas are still not

covered. For businesses and households, broadband is a fundamental that is taken for granted. Is any scoping work being done to try to solve the problems?

Sandy Brady: Yes. We have a small specialist team that works on all aspects of broadband. Part of its work is to try to drive up usage of the services that have been provided, but it also looks to the future and the roll-out of super broadband. How will that happen? In particular, how can we ensure that provision is rolled out as far as possible without the need for public sector intervention?

There is a willingness in Government for providers to provide the infrastructure and services as far out as they possibly can. We are monitoring the situation carefully and we do not preclude future investment by HIE, but the sums of money that are involved are such that it is prohibitive for a small public sector agency to take on the role of reaching the last 5 per cent of the population. However, you should be in no doubt that we are clear that, in some respects, the most important benefits accrue to the people and businesses who are physically furthest from the centre of things, because broadband shrinks distance.

The Convener: Will you share that scoping work with us—not today, obviously, but at some stage? It would be interesting to know where the gaps are and the suggested outcomes for solving the problems.

Sandy Brady: Yes, indeed.

The Convener: Thank you both for giving evidence to the committee this morning. We look forward to seeing you during the budget process later in the year.

We will have a five-minute comfort break.

11:22

Meeting suspended.

11:27

On resuming—

The Convener: We will make a start, ladies and gentlemen, on the third session this morning. I welcome Councillor Alison Hay, James Fowlie and Barbara Lindsay from COSLA, and David Valentine, who is head of economic development in Angus Council and has a number of other responsibilities.

We are continuing our consideration of the enterprise networks and the transfer of functions, particularly with respect to COSLA. I do not know whether Councillor Hay would like to say a few words by way of introduction. I think that the panel

can imagine where some of our questions will come from.

Councillor Alison Hay (Convention of Scottish Local Authorities): It would be just as well to go to questions. The only thing I would say is that we welcomed the cabinet secretary's announcement last autumn. Our staff have been working hard over the last period to ensure that the transfer goes seamlessly. We have a deal from Scottish Enterprise, but I think that we are still working through the HIE situation. The main point is that as of 1 April Scottish Enterprise's business gateway was transferred to local government, through the 12 lead authorities. In addition, £12.5 million was transferred with that to ensure that the contracts run smoothly, with the possibility that, if we find that there are hitches anywhere or that we need a little more money, more might be forthcoming.

We have also negotiated a £12.5 million transfer over the spending review period for local regeneration and economic development. That has mainly been accounted for in projects but, as the money is freed up, it will come to local government. Another £12.5 million, over two spending review periods, is for urban regeneration. As that is freed up, it will come into local authorities' hands.

That is the outline and we can now go to questions.

11:30

Brian Adam: Given that you settled for and agreed to £12.5 million when you asked for £100 million, on what basis did you think that you needed £100 million to deliver what you now think that you can do for £12.5 million?

Councillor Hay: That is not how I see the situation. We looked at Scottish Enterprise's original budgets and worked through them with Scottish Enterprise. While we looked at the books and worked through what we bid for originally, we discovered that the budgets were not as they were and that cuts had been made. In any negotiation, both sides compromise. We have negotiated the best deal that we could achieve for local authorities in the circumstances in which we found ourselves.

Brian Adam: Did you greatly overestimate what the enterprise companies were doing?

Councillor Hay: No.

Brian Adam: What is the reason for the big discrepancy between what was sought and what has been settled for?

David Valentine (Society of Local Authority Chief Executives and Senior Managers and Scottish Local Authorities Economic Development Group): We never sought £100 million. The record shows that we suggested that about £100 million was spent on business infrastructure and regeneration. The fact that budgets had been in that region was borne out in the openness that we shared with Scottish Enterprise. However, when we submitted what we thought that the local—as opposed to the national—element might be, the figure was about £45 million. We had to accept that major cuts had been made to Scottish Enterprise's budget and that it had to reprioritise.

The figure was going to be somewhat arbitrary in any event. The deal that is on the table was proposed to us and we accepted it. A difference still exists, but we accept the situation and we are working with Scottish Enterprise to join up how we proceed.

Brian Adam: The transfer was not just of budgets, but of functions. Along with that was the expectation that some staff would transfer and that Scottish Enterprise would co-locate its offices with councils where appropriate. To what extent have staff transferred? Have offices co-located, which should reduce some costs of back-office functions?

Councillor Hay: No staff have transferred, but we are still negotiating that with Scottish Enterprise.

Brian Adam: What about co-location to reduce office costs?

David Valentine: I cannot say that we have an agreement on co-location, but opportunities for that will inevitably arise. I am sure that some such opportunities are in discussion, but I am not aware of solutions that have been agreed.

We are talking about regeneration and not about the transfer of people for the business gateway, of whom there are five. That is a different matter.

Lewis Macdonald: I am interested in the numbers. When he previously gave evidence, Mr Valentine told us that he understood that Scottish Enterprise's budget for regeneration was about £100 million, but he has just mentioned a figure of £45 million—that is the first time that I have heard that. We know that the final outcome has been funding of £12.5 million, plus another £12.5 million. What does the £45 million represent? Why is it half the original figure and double the final outcome?

David Valentine: We had several meetings with Scottish Enterprise at which it shared lists of previous projects and planned projects. We focused on the planned projects, and Scottish

Enterprise came up with definitions for national, regional and local projects. I think that the figure for the category of local projects was around £5 million, which we disagreed with.

We then undertook an exercise based on the list of projects planned for the future to try to understand how we might apply those definitions. We applied a definition of either local or national to the list, which, in total, was probably still worth something in the order of £100 million because it was not the agreed list of future projects but a list of planned projects. We took account of projects such as Ravenscraig that were clearly national, but there was expenditure on other substantial business infrastructure items—some of which were in the public realm to support tourism and some of which were in the context of opening up sites for development—that we considered local. We tried to take account of projects that might be regarded as local in a city such as Glasgow or Edinburgh even though they might be considered big if they were in smaller locations or councils.

We tried to take account of those matters and to be fair to where Scottish Enterprise colleagues were going. We came up with a figure of £45 million for the list and used that as the basis for negotiation. It included some revenue to support the capital—the figure from the projects was £38 million and the remainder was a bid for revenue. By understanding the cuts and reprioritisation that Scottish Enterprise had gone through, we came down to the offer of £12.5 million that was finally accepted. That was the process.

Lewis Macdonald: That is interesting. If I have heard you correctly, Scottish Enterprise defined projects as national, regional or local but you said that you were not having that, that projects were either national or local and that there was no such thing as a regional project. Jack Perry told us earlier that Ravenscraig was a regional project, but you do not recognise that under your categorisation of regeneration projects.

David Valentine: We maintain that Ravenscraig is a national project, although Jack Perry may describe it as regional within his categorisation. The important point is that it is certainly not a local project.

Lewis Macdonald: Scottish Enterprise's view is that it is not a national project and the local authorities' view is that it is not a local one; therefore, it is nobody's responsibility. Is that correct?

Barbara Lindsay (Convention of Scottish Local Authorities): That is not the case. We are talking about definitions for the purposes of trying to sort out a transfer of functions. As David Valentine says, for that purpose, we consider whether a project is local or national. There is no

doubt that Ravenscraig remains a responsibility of Scottish Enterprise as a national agency; it is not nobody's responsibility.

Lewis Macdonald: I do not know whether the COSLA witnesses heard Scottish Enterprise's evidence on that this morning. It certainly did not sound to me as if the Scottish Enterprise witnesses regarded it as their permanent and primary responsibility to support that project. I am curious to know why COSLA did not recognise the category of regional project and what the consequence is not only of its not recognising that category but of doing a deal with ministers and Scottish Enterprise that deletes it.

David Valentine: I think that I have already answered that. We saw Ravenscraig as a national priority and, as far as I can understand from the evidence that was given this morning, so does Scottish Enterprise for the moment. However, it is not willing to commit for ever and a day to that because everything is under continuous review.

Lewis Macdonald: So the transfer of resources does not include that project; it is simply confined to those that you and Scottish Enterprise have agreed are purely local, there being no regional category anyway. I am sure that the Scottish Enterprise representatives used the term "regional" in their evidence this morning. Do you understand why they still use it if you have negotiated an arrangement under which there is no regional category?

Councillor Hay: It is Scottish Enterprise's decision whether it has three categories instead of two. At the end of the day, a project such as Ravenscraig is always going to be a priority for Scottish Enterprise and other organisations. It is probably a bit unrealistic for someone to say that they are totally committed to and will support projects to the tune of X amount at this stage, given that budgets keep fluctuating. As long as we get a commitment to a project from all organisations, we can work out budgets later on.

The Convener: I think that the point is that there was no commitment, but there we go.

David Whitton: Does COSLA think that it got a good deal on business gateway at the end of the day?

Councillor Hay: We got a deal that was based on a lot of discussion, hard work and good scrutiny of the budgets. It was the best deal that we could have achieved under the circumstances. No one is ever going to be totally happy with anything that happens, but all sides were committed to the deal, and it was imperative that we got it through. Local government desperately needed the money and wanted the power over local regeneration. We negotiated vigorously with Scottish Enterprise and the Government, and we have a deal that we can live with at the moment.

David Whitton: The key words there are "at the moment".

How do you feel about the fact that Scottish Enterprise still has control of the call centre and marketing functions?

Councillor Hay: Jack Perry explained that. We have set up a steering group. We have to recognise that a lot of work has been done in six months. What we, the Government and Scottish Enterprise have achieved—and HIE, although it is slightly to one side at the moment—has taken a lot of hard work by some of the officers sitting beside me and by people in Scottish Enterprise to get the deal up and running by 1 April of this year. We should not underestimate that.

David Whitton: I do not think that we underestimate the hard work involved. I was asking whether you are going to go back and say that you want control of the call centre and marketing functions.

Councillor Hay: That is to be discussed.

David Whitton: You are an experienced councillor so I am sure that you know that a steering group is local-governmentspeak for fudge.

Councillor Hay: No, absolutely not. The group will be chaired by the Government and will include a number of very important players who will look into how we take forward those core functions. At the end of the day, recommendations will be made and a decision will be taken.

David Whitton: But hardly any of the staff who were responsible for the business gateway in Scottish Enterprise have transferred to local authorities. I think that the number is six. Who will manage the business gateway in local authorities?

Councillor Hay: We will have that discussion.

David Whitton: But you took over the function on 1 April.

Barbara Lindsay: We took over the function on 1 April, and the sum of money transferred includes financial provision either for those members of staff themselves—I think that you referred to the number of staff concerned—or to employ staff in local government. The resource is there.

David Whitton: Have staff been hired yet?

Councillor Hay: The adverts are out.

David Whitton: So that means that they have not been hired yet. Who is managing the business gateway in local authorities up and down the land? I do not know where the six people have gone; they might all have gone to one authority, and there are 32 authorities. What is going on?

David Valentine: A lead authority has been agreed for each of the geographic areas covered by the former LECs. Shared service arrangements are being drawn up between the lead authorities and the other local authorities. In my case, Dundee City Council is the lead authority, and Angus and Perth and Kinross Councils are with Dundee on a shared service basis.

Two staff have transferred to our area and three staff have transferred to three other authorities. The total is actually five.

David Whitton: That is one less than we were told.

11:45

David Valentine: I think, from memory, that the number is five. What was said earlier is true; the other authorities that need to recruit have adverts out.

What is important is that those 12 lead authorities have been meeting regularly for at least three or four months to share their experience. In some cases, that means that one lead authority is giving another lead authority assistance. Within the lead authorities, arrangements are being made pro tem for experienced managers not to do other things, so that they can attend to the business gateway, which is being treated as a priority. My understanding from recent discussions with the Federation of Small Businesses and Scottish Chambers of Commerce is that we have managed the exercise, with help from Scottish Enterprise, in quite a seamless way. There are issues, but, as far as I understand it, we are managing reasonably well in the circumstances.

Councillor Hay: We are still getting help from Scottish Enterprise. We took over responsibility on 1 April. We are now just six weeks further on. With the best will in the world, there will always be teething problems. However, given what is happening between us and Scottish Enterprise, we think that we have done a good job.

The Convener: The committee is puzzled. When the Cabinet Secretary for Finance and Sustainable Growth gave evidence, he told us categorically that everything would be sorted out in time for a seamless transfer on 1 April. However, your evidence this morning illustrates dramatically that everything is not sorted out.

Councillor Hay: Everything is not totally sorted out, but the fact that business gateway transferred on 1 April is a huge achievement. There are details that need to be sorted out, as happens with a lot of business. However, I am not unhappy, because we have achieved what we set out to achieve, which was the transfer of the business gateway.

Marilyn Livingstone: You probably heard me refer earlier to the sum of £50 million, or around £50 million—£45 million is quite near £50 million. We now know where that figure came from.

The cabinet secretary talked about the relocation to local authorities. He said:

“Currently, Scottish Enterprise is engaged in a range of regeneration and economic development-related activities, including land and property interventions.”—[*Official Report*, 26 September 2007; c 2074.]

He went on to explain why local authorities are best placed to look after local regeneration and why the responsibility should be transferred. I am happy with that—I am not coming at it from a critical position. However, if you have that responsibility for local economic development and regeneration, you need the resources. To me, local should mean local. If you believe that there is £45 million-worth of local projects, I am concerned that you have only £12 million. I must put that on the record.

I do not know whether you heard some of the other points that I made, which I think are relevant. We are losing a lot of key economic development staff. I used my area as an example, but we have heard that other areas are losing a lot of their key staff, including chief executives and economic development staff. I believe firmly that you need the resources to be able to carry out the task that you are being asked to carry out. I would like you to comment on that serious point.

I also probed the point about the transfer of land assets. That is going to be crucial to Fife Council—and, I am sure, to councils throughout Scotland. John Swinney said that land would have to transfer at value. However, he also said that local authorities would be given the first shot and that he would talk to them.

I know that I am asking you an impossible question, but how can you possibly deliver all those local projects if you lack the staff? A lot of people with expertise are leaving local authority areas. It seems to me that there is a big difference between £12 million and £45 million.

Councillor Hay: The £45 million was for previously planned projects. What we have now is the £12.5 million for planned projects that we hope will go ahead. As far as the assets are concerned, that is one of the details that we are in discussion about. I have every confidence that those discussions will not take forever and a day. We are hoping to have most of this ironed out in the next few weeks.

Our view is that the asset, regardless of whether it is a building, a bit of ground or whatever, needs to transfer if it is integral to the proposed development. That is the sort of discussion that we will have with the minister.

The Convener: But Mr Perry said in evidence this morning that market value would be the basis for transfer of assets.

Councillor Hay: We tend to disagree with him on that.

The Convener: How can you possibly disagree when he has to comply with the same public procurement rules that apply to local government? He has to comply with them or else he will be hauled up in front of Audit Scotland to explain.

Councillor Hay: We are negotiating with the Government, not with Mr Perry.

The Convener: So you think that the Government will tell Scottish Enterprise just to forget about those rules.

Councillor Hay: The bottom line is that if a piece of ground or a building is integral to what is planned at a local level, it should be part of the transfer.

The Convener: But there are rules—we might not like them—with which Jack Perry has to comply.

Councillor Hay: We have been told about those rules, but—

Barbara Lindsay: Just to be clear, we have secured two tranches of £12.5 million. We feel fairly comfortable that we have now a protected £25 million budget for local regeneration. The issue of assets is still under discussion. We hope that we will resolve it within the next two or three weeks and that we will arrive at an answer with which both the cabinet secretary and we are comfortable.

Obviously, we are aware of the rules that you are talking about. We are looking at whether there is a model that allows us to gain the benefits of those assets for local regeneration without infringing the rules. Discussions about that are ongoing and Councillor Hay is not able to second-guess what their outcome will be.

Marilyn Livingstone: It would be good if we could be kept up to date because the outcome will be really important for regeneration.

I will put you on the spot now, with a crucial question that I asked Jack Perry. Will that result in a lack of activity in project-based local economic development? If funding drops, will that mean a reduction in local economic activity across Scotland?

David Valentine: I do not think that the new arrangement will reduce activity. You heard—

Marilyn Livingstone: No, I was referring to the budget. Sorry, I should have made that clear.

David Valentine: Sure. We heard Jack Perry say earlier that he has to prioritise and work within the budget that he is given, as we do in local government. The new arrangement will not in itself reduce the level of economic activity. We have had some good constructive discussions with Scottish Enterprise that we intend to continue. Quite apart from the specifics of budget transfers, we are in a new dialogue with Scottish Enterprise about operating principles for the future. That will be very important in the context of the new arrangement, but we need to have that dialogue anyway, given the nature of economic development practice and operation in the future. That is a positive thing to come out of the process.

Marilyn Livingstone: One of the Government's priorities is to challenge regional equity. Much of that policy will now rest on the shoulders of local government and COSLA in negotiations. How do you see the new structures and changes supporting that—or otherwise?

Councillor Hay: I am sorry; I am not sure what you mean by that.

Marilyn Livingstone: John Swinney said on the record that one of the big issues for Government is that of tackling regional equity to ensure that there is equality for Scotland's regions. A large part of that agenda has now been placed firmly on the shoulders of local government. I am asking what effect all the recent changes will have in that regard.

Barbara Lindsay: We have argued for the transfer of local regeneration for a long time and we have secured a major step forward. As David Valentine said, the transfer in itself will not have an impact on the issues that you raise.

We have been clear about the fact that we must continue to work with the Government, Scottish Enterprise and Highlands and Islands Enterprise to deliver national and local outcomes. We must keep doing that job and not see the transfer as an end in itself or as responsible for everything. We do not have an exact answer, but we hope that we will continue to drive forward in that area, in partnership with the enterprise agencies and the Government.

Gavin Brown: I return to the issue of the business gateway. I was surprised to hear COSLA's response regarding the current position on the contracts for the central performance management unit and marketing of the gateway. In previous evidence, Mr Valentine 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."

Is that still your view?

Councillor Hay: It is. We have not changed our view—we continue to say that transfer of the central functions, which are big functions, is necessary. As I have said repeatedly, over the past six months we have done a lot of work just to transfer the business gateway functions to local authorities. We thought that, on balance, it would be best for the core functions to be transferred over a longer period, to keep the system stable. We have set up a group to look at how that can be done in a managed way.

Gavin Brown: With respect, you have changed your position. On the same day, COSLA also said:

“We feel that the central unit should be brought over even earlier than that”.—[*Official Report, Economy, Energy and Tourism Committee*, 28 November 2007; c 334-5.]

Mr Valentine was referring to the date of 1 April.

David Valentine: That was our view then, but it was taken after only a few weeks, at a time when we were trying to assimilate and understand the position. Our view has not really changed, but our view of how the change should be managed has. When we got into the detail of the issue, we realised that customer relationship management systems and so on that belong to Scottish Enterprise and are needed for other parts of the operation cannot be disentangled easily. There are aspects of the arrangements with which we are not necessarily happy. While the central functions are still being managed by Scottish Enterprise, we would like to have time, along with Scottish Government representatives, to examine them, before we take them over, to ensure that they are entirely fit for purpose. That is one of our major objectives in having a period of transition. It is an entirely sensible set of arrangements for managing the change. However, the presumption is that the central functions will be transferred to local authorities.

Gavin Brown: You say that the arrangements are sensible but, by your own admission, at the moment you are operating the system and are nothing but a postbox.

Barbara Lindsay: We have not changed our position, but we are taking a sensible approach to the timescale and process for transferring the functions. As Alison Hay said, we are seeking to achieve a managed approach.

Gavin Brown: You say that you are taking a sensible approach, but the deadline for completing the transfer was 1 April. I referred to statements that were made back in November, in response to an announcement that was made on 26 September. At what point will it not be sensible to continue in the current direction? When should the changes be made?

Barbara Lindsay: Our overriding objective is to ensure that we have a consistently delivered, high-

quality service to the business community after 1 April. We have not changed our position—we continue to think that that can best be done by transferring the central functions to local authorities. I am sure that David Valentine and Councillor Hay will comment on the issue further.

Councillor Hay: We are working with Scottish Enterprise and the Government to achieve that object. Our aim is not to disrupt the system unnecessarily and to carry out the transfer in a managed and thought-out way, so that we do not end up with a mess at the end of it. If we have changed our position since November, that should not be held against us. We have looked at the subject and come to what we believe is a mature way of proceeding. It would be helpful if the committee would acknowledge that we are being mature in how we proceed and that we are prepared to take time to ensure that the transfer goes through smoothly.

12:00

David Valentine: If we had not introduced the arrangements that I have set out, I would be sitting here saying that we are nothing but a postbox. However, we are more than that. Along with Scottish Enterprise, the FSB and the Scottish Chambers of Commerce, we are taking forward that agenda and I am quite satisfied that everything is in place to ensure proper management.

Councillor Hay: The important point is that we are also in discussion with the business community, which seems to be content with progress.

Lewis Macdonald: I want to return to regeneration and the issue raised this morning of property that belongs to Scottish Enterprise. I presume that COSLA recognises the obligation on all public authorities to obtain best value when disposing of property. Is that fair comment? Do you support such an obligation?

Councillor Hay: Yes.

Lewis Macdonald: Are you trying to persuade ministers to make an exception in your case and allow local authorities to acquire properties without paying for them and, in a sense, to asset-strip the enterprise networks?

Councillor Hay: No.

Lewis Macdonald: So what are you trying to persuade ministers to do?

Councillor Hay: We are not trying to persuade ministers to do anything. We have simply set out to establish that, when a function is transferred, it is transferred in its entirety. The question is how that is done.

Lewis Macdonald: But, as Scottish Enterprise has made clear, property is a separate item.

Councillor Hay: Not necessarily. An area being redeveloped might contain a property or piece of ground that is essential to the whole project. We are discussing with the Government the question of how we ensure that not only the money but everything else is included.

Lewis Macdonald: Under the best value obligation, however, Scottish Enterprise or another body would be required to obtain the value of the property from you as the acquiring body. Is that not the case?

Councillor Hay: Sometimes it is not.

Barbara Lindsay: The question that we are discussing with Government is how, if we have assumed responsibility for local economic regeneration, we handle the assets that are integral to the function and without which it cannot be delivered. This is not an exercise in asset stripping or getting around the rules; we are simply trying to find an effective solution for local regeneration that safeguards and uses those assets. Because the discussion, which is to take place over the next few weeks, is still in its infancy, Councillor Hay is unable to say what will come of it.

Lewis Macdonald: I understand that. However, I was concerned by Councillor Hay's remark that you were negotiating all this with ministers, not with Scottish Enterprise. Does that mean that Scottish Enterprise is not at the table?

Councillor Hay: We are negotiating with the Government. Obviously, when the books were opened on this issue, there had to be certain detailed discussions involving officer input from Scottish Enterprise and HIE. Although that was very valuable to both sides, the decisions at the end of the day have to be taken between ourselves and the Government.

Lewis Macdonald: So Scottish Enterprise and HIE could simply be instructed by ministers to transfer properties to local authorities without recouping their value.

Councillor Hay: Yes, if that is what ministers choose to do.

Lewis Macdonald: So that is a potential outcome.

With regard to the business gateway, a slight uncertainty emerged as to whether five or six people will be involved. Aside from that, we heard that £11.7 million will be transferred to local authorities. Is that right?

James Fowlie (Convention of Scottish Local Authorities): The figure is £12.15 million.

Lewis Macdonald: I understand from Scottish Enterprise that all that money will be managed by the 12 lead authorities. Will there be some book-keeping exercise in which the money will be assigned to the 32 authorities or will the 12 lead authorities deal with all the money?

James Fowlie: It will be dealt with by the 12 lead authorities and there are agreements in place to allow that to happen.

Lewis Macdonald: So there are partnership agreements among the local authorities.

I pursued with Scottish Enterprise the prospect that at the end of the current contracts—or, indeed, in the middle of the contracts—a significant local authority somewhere in Scotland might say that, because it has no statutory obligation to deliver the business gateway, its share of the money that lies with the lead authority will no longer be dedicated to that purpose. Would there be any statutory obstruction to such a move?

James Fowlie: No; that is entirely possible. However, as far as we are aware, there is certainly no intention that that will happen.

Lewis Macdonald: But Aberdeen City Council, for example, is saying about a number of things, "If it's our statutory obligation, we'll do it; and if it's not, we won't." There is perhaps some risk that, in a hypothetical situation in which that logic was applied, a council would withdraw its commitment to the business gateway.

James Fowlie: There is undoubtedly that risk.

Lewis Macdonald: What would be the consequence then for the business gateway in the north-east, given that the budget is entirely held by Aberdeenshire Council? If Aberdeen City Council was to withdraw its commitment, would that mean that the shire would have to reduce the money that it spent because it is spending part of it on behalf of the city? If it did so, could it choose to withdraw that funding entirely from the city but not from the shire?

David Valentine: The issue is valid and it is exercising our minds. The honest truth is that I do not have an answer. Although we are all moving forward positively, that is an underlying issue that needs to be resolved in the shared service agreement. However, COSLA has approached the matter positively, and in the context of the concordat, so all 32 councils—not all 32 because in this case it is 27—have been willing to ensure a seamless transfer and to put some of the issues to one side while we get on with the job. We accept that the customer must be dealt with as a priority.

Lewis Macdonald: I entirely understand that. Is it your intention to resolve those issues clearly before the current contracts come to an end, so that there can be certainty? Can you do that

without all 32—or 27—individual authorities being willing to buy in?

David Valentine: That is our intention. We expect to have support and willingness for that as we move the agenda forward.

Lewis Macdonald: And you require that willingness. You could not impose on member authorities.

Barbara Lindsay: No, but we are in a world of outcomes. For any local authority, the regeneration of the economy of its area is a significant outcome that we share with the Government. In a world in which there is no ring fencing, we will be judged on outcomes and I hope that regeneration and business are high on the list of priorities.

The Convener: We all hope that.

David Whitton: Back in November, Mr Fowlie said:

"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."—[*Official Report, Economy, Energy and Tourism Committee*, 28 November 2007; c 336.]

From what I have heard this morning, I am not sure that you have had a full transfer, so I assume that you will not be able to cope.

James Fowlie: No, we will cope. I think that that question has already been answered to some degree. Negotiation is continuing about what assets should transfer over.

David Whitton: You are withdrawing what you said in November.

James Fowlie: No. Our argument is that, if a function is transferred, local assets should transfer with it.

David Whitton: You said that unless they do, you will not be able to cope.

Barbara Lindsay: I think that I have already said that we are discussing with the cabinet secretary how assets that are absolutely integral to the local regeneration function can best and most effectively be used. We cannot second-guess the outcome of those discussions.

David Whitton: Have you said to the cabinet secretary, "If we don't get all the money and all the assets, we won't be able to cope"?

Barbara Lindsay: As your colleague suggested, we can report back to you on the outcome of those discussions. We cannot second-guess what will be discussed in the next two or three weeks.

David Whitton: I am not asking you to second-guess what will be discussed. I am asking you to

back up the statement that Mr Fowlie made so strongly back in November. Either you will be able to cope or you will not. Which is it?

Councillor Hay: We will be able to cope.

David Whitton: So that was just bluff, then.

Councillor Hay: To tie us down to a few words that were said during a conversation is—

David Whitton: With all due respect, Councillor Hay, those words were said in evidence to a committee of this Parliament.

Councillor Hay: Agreed.

David Whitton: Do you just make it up as you go along?

Councillor Hay: No, we do not. We will be able to cope.

David Whitton: That is fine. I bring you back to what you said about the business community being content. Who in the business community actually said that?

Councillor Hay: We are in negotiations with the Federation of Small Businesses—it is part of the steering group—and, as far as we are aware, it is content with how we are progressing. We have not heard anything to the contrary.

David Whitton: But has anybody from the Confederation of British Industry, the FSB or the Scottish Chambers of Commerce actually said, on the record, "We are really happy with the way COSLA and Scottish Enterprise"—

Councillor Hay: No.

David Whitton: So they are not content.

David Valentine: I referred to the FSB and the Scottish Chambers of Commerce because representatives from those organisations were at a meeting two or three weeks ago of the national steering group that was mentioned. We asked them your question and, as far as they could tell us, there were no issues. They endorsed the notion that the transfer had taken place seamlessly. Obviously they were party to the full discussion, as we would want them to be. That is what I base that comment on, although I cannot answer for the other organisations that you mentioned.

Councillor Hay: If there are problems, I hope that business will bring them to us at an early stage so that we can take them to the steering group or the group of managers and resolve them. However, as we said—and as far as we are aware—we have not heard of anything.

The Convener: Finally, I want to ask about the Highlands and Islands. You will have heard the chief executive of HIE say earlier that the process

is in a transition period. That was a fair report on what is happening. Councillor Hay, does COSLA take a view on the procurement exercise being done throughout the Highlands or Islands or just in individual areas? As you know, the conveners of the three island councils wrote in very firm tones to the cabinet secretary, and copied COSLA in, saying that the changes will not work in their areas. Is COSLA in accord with that view?

Councillor Hay: We are supporting those conveners' efforts to get a solution that suits the Highlands and Islands. We support what they say.

The Convener: There are no further questions. Thank you very much for coming. We take your point about the committee being supportive, but I hope that you understand that the committee members saw evidence for today's meeting that is not the same as that which we were given in November.

Councillor Hay: Circumstances changed between those dates.

The Convener: Yes, but as David Whitton rightly said, what is laid as evidence before the Parliament is laid as evidence before the Parliament. The committee can go on that evidence in formal session. I ask COSLA to reflect on today's experience. If you want to lay other evidence before us, for goodness' sake, write to us and tell us what is going on. Please do not leave us in the position where something that was said in November does not accord with the position as set out today.

Councillor Hay: We will take that on board.

The Convener: Thank you for coming; it was very helpful.

I will move on to the final evidence session with Skills Development Scotland, but I will give it a minute so that the traffic jam of witnesses can sort itself out.

Jim Mather is coming to the committee next week to talk about tourism, the Scottish Register of Tartans Bill, and the energy inquiry. If colleagues are content and the minister agrees, we might ask for an extra 30 minutes with him on this issue, given the number of points that have been raised today. Obviously that will be subject to the minister having the diary time. Are colleagues content that we check that out?

Members indicated agreement.

The Convener: Thank you.

We are joined by Donald Henderson, the interim chief executive of Skills Development Scotland, Marie Burns, the director of skills interventions, and Linda Ellison, the director of finance and corporate affairs for Skills Development Scotland. A warm welcome to you all and thank you for

coming in. Mr Henderson, would you like to make a few opening remarks about your new organisation before we fire into questions?

Donald Henderson (Skills Development Scotland): Yes; I will keep it fairly brief, but this is the first time that Skills Development Scotland has been invited to give evidence to the committee. In some ways, we are the new kid on the block. Skills Development Scotland is the only significantly sized new NDPB that has been created in the past year or so, and it was created at a pretty brisk pace.

The announcement of Skills Development Scotland's creation came alongside the skills strategy announcement that was made in late September 2007. The organisation became a legal entity in December, having been based originally around the core of the Scottish university for industry, which was a pre-existing NDPB.

12:15

On 1 April 2008, ministers appointed the chair of the organisation, Willy Roe, on a substantive basis and, under the TUPE regulations, we transferred around 1,500 staff from our legacy organisations, which were the skills elements of Scottish Enterprise and Highlands and Islands Enterprise, Careers Scotland north and south of the Highland line and learndirect Scotland—the Scottish university for industry element.

The Cabinet Secretary for Education and Lifelong Learning, Fiona Hyslop, wrote to Karen Whitefield, in her capacity as convener of the Education, Lifelong Learning and Culture Committee, on 31 March to set out the broad agenda for SDS and, to an extent, for skills as a whole. The letter set out three main areas, which are individual development, economic pull and cohesive structures. It also set out the SDS budget, which falls into three main elements: an on-going core cash budget of £176 million, £176.4 million and, in year 3, £170 million; a shared services budget of around £13 million per annum that will continue to rest with Highlands and Islands Enterprise and Scottish Enterprise, although we will work together on the provision of certain back-office services; and a one-off budget of £16 million for this financial year only, which had already been announced in the spending review.

This is our eighth week of existence. We are at the start of the delivery process and we are talking to external partners about the purposes for which the organisation was set up. It is not about changing letterheads; it is about delivering on, updating, upgrading and improving the economic impact of skills interventions and providing information, advice and guidance. We hope to do

that over the summer through to the mid-autumn, so that when we get into the early winter we can look at a new contracting round and fit in with the timescale for further education colleges and local authorities, which work with education authorities and schools. We want to be able to go into their planning round in January and February and mesh together the services. That is the background context. We are happy to help you with any questions on the process by which we got there, or on ambitions that we are delivering for Government.

The Convener: As you point out, the committee's remit is the structures and how you will dovetail with the enterprise networks and other bits of the public agencies, never mind the private sector and further and higher education colleges. Do you have a view at this early stage—I appreciate that you have been up and running for only eight weeks—about how you will deliver in the context of the economy, energy and tourism?

Donald Henderson: The key point is that we cannot do this on our own. We have been working extensively with Scottish Enterprise and Highlands and Islands Enterprise, on the staff transfers and because, in their refocused roles, they are the Government's primary agencies with which we will need to work. Our task is not only to upskill the workforce or population of Scotland, but to do so in a way that fits with current skills and economic need and which looks toward where the future growth potential lies in sustainable productivity growth and sustainable economic growth.

We must work closely with the enterprise agencies and with the Scottish funding council, which has far more funding available in this area than we do—it has around £1.6 billion or £1.7 billion. We need to talk extensively and constantly with employers, both public and private, to ensure that we share our expertise with them and listen hard to what their needs are, what works and what frustrations they experience with the official machinery.

The Convener: We might deal with tourism later, but I mention in passing that you might want to consider the evidence that the committee has taken on tourism and what tourism businesses have said about the FE sector. Not all of it is complimentary.

Gavin Brown: There is a potential danger of duplication on skills between what you do and what some of the enterprise networks do. Are there measures in place to ensure that there is no duplication, so that what Scottish Enterprise does on skills is distinct from what you do?

Donald Henderson: When a number of public bodies work alongside one another, there is inevitably a constant risk of some duplication.

However, there is not as much risk of that as it might seem from the outside, because we are clear about what our focuses are: we are delivering the national programmes and running a number of discretionary projects.

We need to work extremely closely with Scottish Enterprise on the work that it does with its priority sectors and account-managed businesses—the ones in which it sees particular opportunities for growth—and we have been having discussions with it on how we do that. It is important that Skills Development Scotland does not try to second-guess which those account-managed companies should be and arrive on their doorsteps making it look as though variable or competing services are available. Therefore, if we have expertise or services that would help such a company, we need to ensure that its account manager in Scottish Enterprise is aware of that suite of expertise and services and that the work is channelled through the account manager rather than us appearing on the company's doorstep.

The way in which Highlands and Islands Enterprise manages that end of its business is a bit different, but there is a parallel with how we need to work together to develop and deliver a seamless public service. That will not be easy and sometimes we will fall over, but such a service needs to be our ambition and we are building the structures to achieve it.

Gavin Brown: Okay. Let us take Scottish Enterprise to begin with. Are you saying that the only way that you would approach the 1,900 or so account-managed companies is via the Scottish Enterprise account managers?

Donald Henderson: Yes, that is the intention for offering new services. If we have an established relationship with a company that has a modern apprenticeship programme or takes young people or adults on other programmes, we will be able to talk directly to the company about the delivery of the programme rather than having to go through an intermediary. However, it is important that it does not look as though we are competing with Scottish Enterprise in analysing the account-managed companies' future need as regards growth and productivity. Scottish Enterprise and Skills Development Scotland should challenge each other's ideas on occasion but should not compete with each other in delivering services.

Gavin Brown: That seems clear to me. Who will take the lead on skills for companies that are not among the 1,900 account-managed companies but are in one of the six priority industries?

Donald Henderson: There will not be as direct a public sector to company relationship in that case, but we will need to work with the enterprise agencies to find out how they work with those

priority sectors. We have our own primary sectoral contacts through the sector skills councils. We need to look for industry intelligence on strengths, weaknesses and opportunities and ensure that the structures and frameworks are put together on the skills side to allow need to be addressed. I suspect that it will vary a bit from sector to sector, but some of the same principles will apply across sectors. In the priority sectors, we should aim to work closely alongside Scottish Enterprise, which the Government views as the primary sectoral contact on business growth.

Dave Thompson: Will you elaborate a bit on workforce development? In their evidence, the witnesses from HIE said that they would have responsibility for it. How do you define workforce development and what are the dividing lines between you and the enterprise agencies?

Donald Henderson: That term covers potentially huge areas. It can be about what kind of people are recruited into a business—I should use the word “employer” rather than “business” because, although much of our interest is clearly in the private sector, it is not all there—how an employer recruits, how early training and development take place or what kind of culture an employer develops in their workplace to establish an appetite for all sorts of learning that can help to stimulate activity, imagination and thought about how services can be provided, or products developed, more efficiently.

Workforce development is also about ensuring that, once the skills are in place, they are properly used. Analysis suggests that, fundamentally, we are not a low-skilled economy—in that respect, we do well against our main international comparators. Evidence that we use properly the skills that have been developed is nowhere near as clear. I am sure that the enterprise agencies would agree that workplace development should take us solidly into skills utilisation territory. There is no point in having a highly qualified workforce if we are not testing the boundaries of the capabilities of each person in the organisation. Sometimes we must look to where the competition is coming from and what strengths it will bring, as compared with the existing strengths of the business. We can cover very broad territory.

Dave Thompson: How will you identify the specific needs of employers in the Highlands and Islands? The specific needs of employers in the islands may be quite different from those of employers in other parts of the region. What local flexibility will be built into the system?

Donald Henderson: We need to ensure that we are not a single national organisation. We will cover the length and breadth of Scotland, including the patches of both HIE and Scottish Enterprise, but we must ensure that we are not

one office somewhere in the central belt. Already we operate from 40 or 50 sites across Scotland. In many ways, we operate through hundreds of sites. Through learndirect Scotland, we have 500 or 600 recognised learning centres.

We will not send in people to carry out audits at individual employer level, but we will work hard to ensure that, through representative bodies such as sector skills councils, which have statutory obligations on communication with employers in their sectors, we understand the needs of those sectors. We must also understand Scottish geography and the fact that the needs of and opportunities open to businesses and employers in urbanised central Scotland are different from those of businesses in the Borders, Dumfries and Galloway, Aberdeenshire or the Highlands and Islands. We must make services available in a way that is sensitive to the local economy and local communities. Sometimes the way in which people are able to access services is affected by the local geography.

Over the summer, we will work on the shape of the services that we will develop and deliver in the future. If we are to deliver services efficiently, they must sit within an organisational framework, but we must ensure that there is as much local flexibility as possible, so that services can be tuned to the needs of each employer, instead of our saying, “Here’s something we made earlier. Take it or leave it.”

Dave Thompson: So places will be provided according to need, instead of being based on preset views of how many training places should be provided in an area.

Donald Henderson: That is the world towards which we need to move.

Dave Thompson: If 90 or 100 people in an island group such as Orkney, Shetland or the Western Isles are identified as looking for particular training, but the budget makes provision for only 50 places, will there be room for flexibility to allow changes to be made?

Donald Henderson: I will ask Marie Burns to comment on how the contracting process for national training programmes works.

We are in the same position as Scottish Enterprise and Highlands and Islands Enterprise. Inevitably, there will be more calls on our money than we will have money available. The chief executive of every NDPB in Scotland would like to have a bit more than they have been given—that is the way of the world. At national level, we need to analyse where we get the biggest bangs for our buck in economic growth in the short, medium and longer term. That is about removing the barriers that prevent people from entering the economy and, at the top end, high-end skills utilisation.

Within the national picture, we will inevitably have to take account of the geographical pattern, to ensure that there is equity of access across the length and breadth of Scotland.

12:30

Dave Thompson: Will any sort of weighting apply in the more fragile areas, to fit in with HIE's important responsibility for developing communities? I would not like to think that this will be done purely on a numbers basis. Will you take into account the fact that there is community building to do and that there are fragile areas that need a bit of extra help?

Donald Henderson: I cannot describe to you in precise detail the way in which a balance would be introduced, but as an organisation we are clear that we have duties towards the population of Scotland as a whole. Equity of access and opportunity is part of that. That does not mean that each and every community will get everything that it would like—we have to find budgets and, like everyone else, we know that there will be pressure on them—but we are not the kind of organisation that will deliver everything within the central belt because that is nice and easy. Even if analysis proved that it would be economically effective to target fragile areas, we would need to ensure that the country as a whole contributed to economic effectiveness and sustainability of productivity growth.

Marilyn Livingstone: I have two questions, which I will ask together because I know that the convener is keeping an eye on the time. First, you talked about economic pull and better partnership working. Do you acknowledge that as well as providing education and training, local further and higher education colleges are key economic drivers? How will you work with them? They enrol more than 400,000 students a year, and deliver 25 per cent of higher education. Perhaps I have missed something in your operating plan, but I would be keen to know how you will give added value to what is being delivered in further and higher education.

My second question is about modern apprenticeships. You said that you would like to target MA funding to meet the needs of the economy. I chair the cross-party group in the Scottish Parliament on construction, which has a skills and training sub-group. There is a lot of concern in the construction industry about skills shortages and there being too few apprenticeships to match the needs of the industry. That is apparent in a range of industries—in stone, in mechanical engineering and so on—from the evidence that we have taken. What are your plans for better targeting? Do we need to increase the number of modern apprenticeships?

Donald Henderson: I will take the second question first. Yes, we do. Not only that, but we have already, in our eighth week of existence, been considering the significant increase in new starts adult modern apprenticeships in automotive engineering and construction this year. That applies also to the same sectors in the 16 to 19 programme. It is important that we continue close contact with the sector skills councils and other representative bodies in those areas. Construction is a perfect example. The needs of that sector—the future opportunities and skills shortages—will change over time depending on what contracts come up, how the labour market looks and whether we continue to attract high-quality people from central Europe. If that situation changes, it will have an immediate impact on domestic training need. The situation is highly dynamic. For some of those factors, it is difficult to project into the next three, four or five years. However, it is essential that we do our best in that area and that we work together.

The theme of working together also applies in FE and HE. I mentioned that those sectors dwarf us in terms of spend. Including the income that we get from sources, we will have about £200 million per annum. Those sectors have about seven or eight times that amount. We are already working closely with the Scottish funding council. The interim board has benefited hugely from having as one of its members Janet Lowe, who is not only on the funding council but who chairs its skills committee and is a passionate advocate of the contribution that the FE sector can make in this area. I have been engaging closely with FE principals; indeed I have been in two FE colleges in the past fortnight, Stevenson and John Wheatley, to talk to the principals about the work they are doing and how we can better integrate our services. The challenges in the skills strategy—SDS is a new organisation, so the challenges are big—do not stop there. It is about how public services as a whole integrate. It is about not only what we can do for FE, but what FE can do for us, and what we can do together.

The Convener: We will have to stop there. I apologise to those who did not get the chance to ask their questions. I thank Mr Henderson and his staff for coming along. I am sure that we will return to this issue in the autumn.

12:35

Meeting continued in private until 13:38.

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