



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 21 April 2010

Session 3

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**ECONOMY, ENERGY AND TOURISM COMMITTEE**  
**13<sup>th</sup> Meeting 2010, Session 3**

**CONVENER**

\*Iain Smith (North East Fife) (LD)

**DEPUTY CONVENER**

\*Rob Gibson (Highlands and Islands) (SNP)

**COMMITTEE MEMBERS**

\*Ms Wendy Alexander (Paisley North) (Lab)

\*Gavin Brown (Lothians) (Con)

\*Christopher Harvie (Mid Scotland and Fife) (SNP)

\*Marilyn Livingstone (Kirkcaldy) (Lab)

\*Lewis Macdonald (Aberdeen Central) (Lab)

\*Stuart McMillan (West of Scotland) (SNP)

**COMMITTEE SUBSTITUTES**

Nigel Don (North East Scotland) (SNP)

Alex Johnstone (North East Scotland) (Con)

Jeremy Purvis (Tweeddale, Etrick and Lauderdale) (LD)

David Whitton (Strathkelvin and Bearsden) (Lab)

\*attended

**THE FOLLOWING GAVE EVIDENCE:**

Carol Booth (Scotland's Colleges)

Sandy Brady (Highlands and Islands Enterprise)

Douglas Colquhoun (Scottish Enterprise)

Professor Pete Downes (Universities Scotland)

Crawford Gillies (Scottish Enterprise)

Dr Alison Hiley (Confluence Scotland)

Alastair Nicolson (Highlands and Islands Enterprise)

David Smith (Scottish Development International)

Julian Taylor (Scottish Enterprise)

**LOCATION**

Committee Room 2



## Scottish Parliament

### Economy, Energy and Tourism Committee

*Wednesday 21 April 2010*

[The Convener *opened the meeting at 10:00*]

#### International Trade Inquiry

**The Convener (Iain Smith):** I welcome members to the Economy, Energy and Tourism Committee's 13<sup>th</sup> meeting in 2010. Before we start our business, I welcome our new senior assistant clerk, Joanna Hardy, to her first meeting—she has taken over from Katy Orr. I hope that she enjoys her time on the committee. We look forward to working with her in the coming months.

I have received no apologies. As usual, I remind members to switch off all BlackBerrys and other mobile devices.

Agenda item 1 is on public sector support for exporters, international trade and the attraction of inward investment. We will hear from two panels of witnesses on the educational aspects. The first panel has only one witness—it is difficult to call one person a panel but, in our terms, it is. I welcome Dr Alison Hiley, who is from Confluence Scotland. One barrier that has been identified to people getting involved in trade is to do with language and customs in other countries. Alison Hiley is here to tell us a little about what is available to people in the business sector to learn more about how they can communicate if they wish to move into the export business. I ask her to say a few words, after which I will open up to questions.

**Dr Alison Hiley (Confluence Scotland):** I thank the committee very much for inviting me. I know that I speak on behalf of my profession of translators, interpreters and deliverers of tuition and training when I say that we are grateful to have awareness raised not only of the services that we offer and how they benefit business, but of what the process involves. There are many misconceptions as to how linguists work.

My company, Confluence Scotland, offers translation services and a training service, which is not in competition with the colleges and universities. We offer customised training for businesses for whatever purposes they have. It is for people in Scotland who deal with the overseas market in whatever shape or form, or for non-native speakers of English who live and work here. We tend to go into businesses, and we usually provide one-to-one training or small group training. The training is very much customised or tailored to

the particular need. It might just be on e-mail, or it might be about how to get on in meetings or correspondence.

On the profession and how it works throughout Scotland, most of us are self-employed freelancers. There are very few large outfits providing services. We act as an agent for translators. They have to be specialised, because it is not in anybody's interest to employ a jack-of-all-trades translator—that is no use, because the translator has to know the context in which they are working. Therefore, a translator living and working here might well work mostly for one company, but they will not be employed by that company; they will be engaged as a freelancer. The same usually goes for interpreting. The situation is different from that on the continent, where large engineering companies and other companies employ in-house translators, who are highly specialised, too. That is one major difference.

We also bring people over from Europe for study visits and courses on English language training to do with their business. In both translation and training, it is important that cultural awareness is raised. There is no point teaching somebody to speak a language or offer translation if they do not understand the culture and how to behave. One of the misconceptions about translation in particular is that any old translation will do; in fact, there is a multiplicity of possibilities. Specialists are needed because they know the field. That is particularly true with marketing; businesses ask us to translate marketing literature and promotional material.

The same goes for trainers. The colleges and universities employ full-time or part-time staff, but most trainers out there work freelance for different organisations. I hope that that is enough of an introduction.

**The Convener:** Thank you. I want to understand some of the issues involved. If I were a small company thinking about going into an overseas market, how would I find out about the services that are available? How would I avoid making mistakes such as picking the wrong type of support for translations?

**Dr Hiley:** Our experience is that when companies employ somebody in marketing who knows what they are about to engage translation services in particular, that is a huge advantage, because they have identified a need. If the marketing person comes to us, we will definitely talk through the issues, the context and the background. If you just look somebody up in "Yellow Pages", you could end up with completely the wrong providers, because of the specialism that is required.

When we started out several years ago, we tried to market our product but found that our marketing fell on deaf ears. In fact, our business comes from referrals. As a member of the Federation of Small Businesses and the local chamber of commerce, I have to say that networking is a great way of getting the message across.

**The Convener:** You anticipated my next question, which was how much of your business comes from referrals. Do you get referrals from other companies, the chambers of commerce, the FSB or some of the public agencies such as Scottish Development International and the enterprise agencies?

**Dr Hiley:** Most of our business comes from referrals and by word of mouth. Obviously, that has to start somewhere, but in our case it probably started with networking rather than advertising, which does not seem to work. If somebody does not perceive that they need your service, direct marketing falls on deaf ears.

I speak on behalf of the professional body for translators and interpreters, which is the Institute of Translating and Interpreting, which has various regional networks, including a Scottish network. The professional body supports its members. One of the issues is how we raise awareness that we are out there and what the process involves. It is not just about people wanting something translated, sending it off and getting it back; you need to talk it through and discuss the customer's needs and the context so that you can work out who the right translator would be. That translator then needs to do their own research. That is why it makes sense that we offer an on-going, supportive service, not just a one-off translation of a leaflet, for example. The translator who does the work will look into the background, will have the necessary specialist vocabulary and will look into the company and whom it is trying to reach. That is vital, because we can then offer back-up. For example, we can offer some marketing, because a native speaker, knowing the area, will be able to identify things that the company may not have identified. If need be, services other than translating text, such as phone calls and correspondence, can be provided.

**Rob Gibson (Highlands and Islands) (SNP):** Good morning. We are familiar with Scotland's current export patterns, with the USA and the major European countries at the top of the list. Do you find a lot of people seeking services in that direction? The BRIC countries—Brazil, Russia, India and China—are coming through as potentially big markets, which means that Brazilian Portuguese, Chinese, the Indian languages and Russian will become more important. Are the translators with whom you work geared up for that? What has been the experience with the usual

European languages? In contrast, how are your services lining up to meet demand from the new potential markets?

**Dr Hiley:** I will deal first with the regular European languages. We try, where possible, always to source a translator who resides in Scotland. Theoretically, because of the electronic world, we can source people who are based anywhere. However, if an issue relates to Scotland, it is important that the translator understands Scotland, so it is better if they live here. Most of them have either come from the relevant countries or, if they are translators into English, have lived there for a long time. That makes a difference.

I turn to the so-called new languages. Within the specific industries to which we have offered services, such as the oil and gas industry and the drinks exporting industries, Spanish—especially South American Spanish—and Russian have been of importance. Over the past year, we have delivered training in Spanish to a drinks exporter. Just yesterday, it asked us to further that by helping some of its top executives to deliver presentations and to translate reports. That is an example of how we can expand the service.

With Russian, recently we were able to help people by translating a PowerPoint presentation, so that even if the presentation were delivered in English—which it was—it could be shown simultaneously in Russian. We have native Russian speakers here who are heavily involved with the oil and gas industry, for example; they are in Aberdeen or round about there and know what is going on. That market is definitely growing.

**Rob Gibson:** Are there sufficient people in Scotland to take on the work that is opening up in the directions to which I referred? If we are to be more effective, we must have the people here who are capable of producing such translations.

**Dr Hiley:** Absolutely. It is astonishing how many specialists there are in Scotland. However, for written translation, it does not matter where people are, because e-mail is a wonderful thing. If companies want to follow up translation with interpreting, it is vital to have people to hand. In cases in which a delegation is going abroad, for example, through our networks one can source people on the spot who would be able to help. The more networks and databases of people are built up, the better that will be. There are many more people with such skills than one might imagine here in Scotland.

10:15

**Lewis Macdonald (Aberdeen Central) (Lab):** One thing that we have been trying to establish in evidence is how a Scottish business operating

overseas will source different kinds of skills and advice from different agencies. When you do what you have described, which involves engaging with a company as part of its marketing effort in an overseas market, do you find yourselves collaborating with public agencies or competing with them? For example, when you deal with clients in the oil and gas market in the Russian far east or China, for example, do you work with SDI, or are you simply aware that the organisation is out there somewhere and you occasionally come across it in the course of giving advice to clients?

**Dr Hiley:** At the beginning, in the advice or exploration stage, we would certainly ask what paths SDI had taken. We know that SDI is out there helping people, but we do not deal directly with any of the public agencies because we are not asked to do so by the companies.

**Lewis Macdonald:** When you discuss a marketing strategy in China with a Scottish company, for example, you will sit down with that company but you will not necessarily find yourselves dealing with the other people who offer it advice on different aspects of that business.

**Dr Hiley:** No, unfortunately not. It would probably be highly beneficial if we did that, because it makes sense, given that we are talking about a whole package. In addition, of course, we would never want to go in the wrong direction, which could happen.

**Lewis Macdonald:** The service that you offer to clients that you have described is quite holistic; as you say, it is not a question of providing one-off translations. You have described what your own company does. Is what you do the best in class or does it represent a typical offering from similar companies in the market?

**Dr Hiley:** Do you mean from our point of view?

**Lewis Macdonald:** From the client's point of view. The service that you have described is extremely holistic and involves you working with the client in a range of ways to improve their performance. This might be a difficult question to answer, but would you say that there are other people in the marketplace who offer services of the same high standard or are you exceptional as regards what is available to businesses that are looking for such support?

**Dr Hiley:** I would not say that we are exceptional, although it would be nice to think so. However, the vast majority of the translators work for themselves.

For what it is worth, yesterday I talked to a colleague who has been based here in Scotland for five or six years and who is up at the top of the profession. He has never worked for a Scottish company—he does not need to, as he gets the

work in. Scottish companies have not come to him even though he is a specialist in information technology with German and Russian, which are languages that one would have thought would be in demand. It seems that, when it comes to how companies can reach us and how we can reach them, the communication is not working as it should.

**Lewis Macdonald:** Another interesting point that you made in your introduction was that there is a contrast between the model in Britain, where interpreters are generally self-employed and contract with companies, and the continental model. Does that contrast suggest to you that the sector is less well developed in this country, or is it simply that a different business model has developed here over time?

**Dr Hiley:** The needs are perceived to be different, although that does not mean that they are different. One of the biggest misconceptions in Scotland is that English is the international language of business and, as a result, we do not need any other languages. That works up to a point—for example, it will work for main meetings—but the fact is that relationships are built in the side meetings, during lunch and over a pint of beer. Awareness of the culture and language helps. Of course, there should also be the back-up of the written translation.

Another misconception is that all these problems can be solved simply by throwing some language training at a company. The process of learning a language is very long and, unfortunately, unless you are a whizz-kid you will not be able to do it just like that. As a result, translation should not be an alternative but should be run alongside everything else.

**Lewis Macdonald:** Clearly, your company and companies like yours have a role in challenging such misconceptions. Could the public sector play the same role? Could the enterprise agencies, for example, do more to inform companies about the kind of support that they might need?

**Dr Hiley:** Definitely. As I have pointed out, another misconception is that it is easy to get things translated. Then people use some online tool and what comes out is gobbledygook.

One more misconception is about how specialised the specialists are. The fact is that they are highly skilled and deserve to be paid a decent amount of money for their work. When we tell people who come to us what our rate is, they often say, "Oh no! We can't go with that," or think that translating just one thing is enough. We need to get across to companies that this could be an on-going process that would have long-term benefit and that the people out there who can help

are highly trained, very experienced and potentially a great asset.

**Lewis Macdonald:** You also mentioned the networking opportunities that membership of the Scottish Chambers of Commerce offers to companies such as yours. I know that it has an international wing, but does it make its members aware of how the services provided by your company and companies like yours need to be valued, taken seriously and paid a serious rate?

**Dr Hiley:** Not really, although I have to say that I can speak only from my experience in this area. When I speak to people privately, there seems to be an awareness of that, but that is not the same as getting the message out to all members.

It has unfortunately—and temporarily, I hope—folded but, until just recently, there was a Lothian export club, which provided a platform that allowed all sorts of people to meet. However, I think that it was preaching to the converted.

**The Convener:** Before I bring in Stuart McMillan, I want to follow up an issue that Lewis Macdonald touched on. Is there a single directory or web portal that contains all the advice and information about the companies in Scotland that provide these services?

**Dr Hiley:** No.

**The Convener:** And should there be?

**Dr Hiley:** Yes. For a while, the Edinburgh Chamber of Commerce was talking about having a database and indeed was gathering names for it. However, I have not heard anything about that for a while.

If there were such a thing and if people who were beginning to set up businesses or investigate the overseas market were made aware of how it could benefit them, it would be a very positive move. The ITI has a web portal that lists all its members, but people do not know that it exists. If you know that it is there, you will be able to find someone. Likewise, there is also the Institute of Linguists, which is based in England but serves the United Kingdom. Again, though, people do not know that it is there.

**Stuart McMillan (West of Scotland) (SNP):** Good morning. I have really enjoyed what you have had to say this morning. I studied languages at university and I remember only too well all the red marks that I got over my attempted translations of French and German, so I fully understand your point about translating not just being about translating words but having a cultural aspect as well. I hope that anyone who reads the *Official Report* of today's meeting will also take that point.

I have a couple of points to query following on from some earlier evidence. In his evidence to us last week, the German consul general gave the example of the lack of Scottish businesses taking part in trade fairs in Germany. He had the impression that many companies are afraid to take part because they do not speak the language. That is quite a strong point.

Marrying that point up with your view that advertising does not seem to work, that the best way to get business is by networking, and that companies seem to be scared of going further afield to sell their products and services, what could your company and industry do to get your message across about the facilities that you can provide to assist companies?

**Dr Hiley:** If funding was available, we could go to companies, talk to them and give them examples or case studies to which they could relate, and that could help. I genuinely believe that what we do would benefit companies—this is not just me trying to sell what we offer. If we happen to meet a representative of a company, they might work in a different field or a different part of the company, so they might not perceive our service to be important. We have also come up against engineering companies that seem to think that, as there is only such-and-such a budget for training and they do not go beyond that, it is more important to train a forklift driver than a manager who is going off to a conference or trade fair. There could be a combination of a database that is known about, and someone in the business circulating through the business community, especially among the smaller companies, which perceive a need but are put off by lack of funding. Funding to kick-start that might help.

**Stuart McMillan:** If a database existed, what actions could your company take to promote it and your business as well? What would you recommend that the industry do to promote such a database in Scotland?

**Dr Hiley:** I was talking about this to the chairman of the local ITI yesterday, who is also on the national committee. The ITI has been talking to Westminster, but it has not talked to any of the devolved Governments. It realises that that is a big gap; the professional body realises that it should be doing that.

Active and live presentation to show what can be done often opens people's minds. Sadly, language education in schools is dwindling because languages are perceived to be a hard option, so people decide to take film studies or something that is more fun. That is happening across the board in Scotland at the moment. The business clients whom I deal with in training, in particular, will say to me, "If only we had realised,



we would have kept our languages on.” As a language graduate, you will appreciate that.

10:30

The business community does not necessarily want specialist linguists in their businesses; they want people with languages alongside their other skills. That will help, for example, if we are sending somebody to give a presentation. If there is somebody who has knowledge of the language concerned, they are the obvious person to work with, but if nobody in the company has any awareness of how language skills can help, it is a much harder battle.

**Stuart McMillan:** You mentioned the perception that English is the main business language. I suggest that, within Scotland and the UK, there has probably been an arrogance with regard to learning foreign languages because the perception has been that everyone learns English anyway, so we do not have to bother learning foreign languages. How do you overcome that perception in promoting your industry? How do you get the message through to businesses that they need to have people with foreign language skills to aid their business and their business growth and to fulfil their potential?

**Dr Hiley:** Again, it would help to go right back to the beginning and to go into schools and to preach that message to kids. That would mean that in the future the workforce would be aware of the issue. As you say, there is a great fear out there that is partly about people never having had language-learning experience beyond very basic stuff at school, so they are embarrassed and scared and do not want to put themselves forward. If there was a means of talking to the companies, that problem could be surmounted, at least partially.

**Stuart McMillan:** You commented on the fact that large companies on the continent have in-house translation services and so on, which is in contrast to what goes on here in Scotland. I probably know the answer to the question, but I will ask it nonetheless. What is the best method of dealing effectively with the needs of businesses? Is it to have an in-house department or is it to have something akin to what your business does?

**Dr Hiley:** Unless the company is among the largest companies, it is unlikely that it would be able to afford to engage a specialist at the level that they would need, which is where the body of freelancers who are out there comes in. Only giant companies could afford such a section and could therefore afford more than one person. One person can operate in a specialised field, but even in that field there are likely to be more specialisms. If there could be some synergy between the different fields, that would be the best solution.

**Stuart McMillan:** Is there a market for both approaches? Really large companies would have sufficient resources to have an in-house department if they wanted one.

**Dr Hiley:** We have had as clients one or two really large companies that do not have such in-house departments. Many companies deal with several markets; they do not deal with only one country. We recently worked with a fish exporter that was going to a trade fair in Poland and therefore needed promotional stuff in Polish, but they were also fishing in north Africa so they needed legal documents translated for that. An in-house translator would have been of no use to that company unless the translator happened to be proficient in Polish, French and English. Companies that operate in a restricted field could operate with one in-house translator, but other companies probably could not.

**Gavin Brown (Lothians) (Con):** Have you noticed a shift in the past couple of years in the languages that you are dealing with?

**Dr Hiley:** Across the board—taking into account private clients as well as business clients—the most common demand is for Spanish. That is partly because of holidays—that is the private market—but mostly because the South American market is on the rise. Chinese and Japanese are common, too. With those two languages, the cultural aspect is a huge factor. The marketing man of a high-tech company that has been tendering for a contract in Japan told us that, in six months, he has learned such a lot that he knows that the process is continuing, and he was able to jump in and save his boss during a meeting in which he understood that his boss had inadvertently said something insulting and was about to lose a deal.

**Gavin Brown:** Is it hard to find people who can assist you with certain languages? What languages would those be?

**Dr Hiley:** It is important to say that, if we cannot find the right person, we should not be offering the service—we should tell the client to go to someone else. Especially where marketing is concerned, you could create a disaster if you did not use someone who is really on the ball.

Recently, we were asked for a Thai translator for a Scottish food technology company, but we decided that the translator whom we had used previously was not suitable. It took us a while to find the right person, and we had to talk to several people before we found the person. There are very few Thai translators in Britain, and we needed to use someone who understood where the Scottish company was coming from, which meant that the person had to be someone who lived in

the UK. That is an example of a new language, as it were.

**Gavin Brown:** You touched on getting the message across to small businesses or medium-sized enterprises. In terms of the way in which the public architecture deals with the matter, it tends to be local authorities that would work with smaller businesses—the business gateway contracts are dealt with by councils rather than by Scottish Enterprise, which dealt with them previously. What is the dialogue like between your industry and local authorities? Is it generally good or bad? Does it depend on the local authority?

**Dr Hiley:** I think that the dialogue is good. We are based in Musselburgh, so we deal with East Lothian Council. I was talking to the lady who is in charge of the council's translation service only yesterday. That is a community service, which deals with the community languages, which are not, by and large, the languages that we are dealing with. However, if the council cannot meet its needs from its database, we will see whether we can help.

Those of us who have been through the business gateway service and have appreciated it are still in touch with people there.

If someone in a service is aware that it is a good idea to support a business with language services, they will suggest that to the relevant people.

**Christopher Harvie (Mid Scotland and Fife) (SNP):** First, I am sorry that I turned up rather late.

I have some awareness of the subject from having been a professor of British studies in Germany for about 30 years. In that time, we have built up quite a big link with Wales, which is the twin region of Baden-Württemberg, by setting up a Welsh studies centre that brings Welsh academics across to Germany. We even had some people in Germany learning Welsh, which really stretched the usual boundaries. To be blunt, however, we found that it was better to capitalise on the enthusiasm of the German students and their experience in coming here as assistants than it was to expect any great involvement by people in Scotland—or people in Wales, for that matter. The Germans who teach in Wales have an excellent command of German, but I am afraid that that is not always mirrored in Scottish students' command of English grammar.

**Dr Hiley:** No. Absolutely.

**Christopher Harvie:** We were able to sort of turn them, as the spymasters have it, to work for us.

Is there more to be gained by making progress with immigrant groups, such as the Chinese, and working with people who have a competent and efficient knowledge of English within a particular

professional area? Is it better to bring those people into our selling and interpretive systems than to rely on our conventional learning systems?

**Dr Hiley:** In the public sector, councils, the police and the national health service have their own banks of people on whom they can call, who are experts in relation to particular needs. Those people can help hugely, but I wonder whether they are the right people to help with the cultural issues that arise in doing business abroad. That has to be a two-way process. We have to use the knowledge of the resident Scottish business community as well as the other way round.

I am training a group of German people in one of the large insurance companies. They have wonderful German-learned English, but we are helping them with the cultural side, which they have not learned. The matter is linguistic but it is also behavioural. Those Germans have excellent English but they need to learn more about the culture here in Scotland, and that works the other way round as well. The process is working for the company because the staff operate better.

**Christopher Harvie:** That is what I did in Tübingen. In fact, I was almost the dancing master for cultural acquisition. I found that the Offenburg University of Applied Sciences, which is a technical university, sends nine students to Edinburgh Napier University each year to study various elements of Scottish engineering business practices, but no return party goes from Napier to study in a place that has five times the engineering output of Scotland relative to population. How can we remedy that?

10:45

**Dr Hiley:** As I said before, you need to go into schools and tell the kids who want to be engineers that that is great and that having some German will be of real benefit to them, because German is the language of engineering on the continent. They might want to learn Chinese, depending on which direction they want to go in. If they understand that when they are young and it is easy for them to learn, you are halfway there.

**Ms Wendy Alexander (Paisley North) (Lab):** We have touched on the role of some of the public agencies, particularly Scottish Development International. One of our challenges in this inquiry is to consider whether, with the £20 million or so that it has to spend, it is optimising its influence in supporting and boosting Scottish exports. We have asked a number of witnesses this question. From your perspective, is there anything that SDI should be doing more of? Have you felt frustration, in your professional experience, about access to resources or about the approach that is taken in respect of guiding public agencies as they think

about adjusting their roles to new markets and new products?

**Dr Hiley:** Information on who is selling abroad and who wants to sell abroad would be useful to us. Often, you are involved at a stage at which we are not involved. Somebody will ring up and say that they need a 3,000 word report translated by the next day and ask us whether we can do that. The answer will be that we cannot, unless the translator sits up all night. That is too late in the process—we should have been involved from the beginning. As you say, we need all the different advisers to come together and put things together as a whole.

**The Convener:** Are you aware of any grants that are available to companies that want to access services such as those that you provide?

**Dr Hiley:** Such grants are not available directly. If a company makes a case for it, a grant may be offered through the business gateway; however, the amount will be finite and the grant may be just to translate a website and not to do anything more. That is great, but it is only a start.

**The Convener:** We need quite a brief answer to this, although it is quite a big question. We have been talking about what languages might be required in the future. Are we providing enough language education in Scotland, through schools, universities and colleges, and are we teaching the right languages for the future or do we need to think about changing the emphasis in the languages that we teach?

**Dr Hiley:** Yes. Much as I love French—it is a wonderful language and culture—the long connection between Scotland and France should not necessarily be pursued in schools. It is great that kids learn French, but Spanish, Russian and Chinese would be much more relevant for everybody. Obviously, they are not easy to learn, which is why it is important that kids learn them at an age when they find learning easy. People in school language departments tell me that there is a perception that learning a language is hard, so students do not do it. That is sad. They want a standard grade qualification, but it does not need to be French. German, which was just mentioned, is also definitely a language for European business, despite the fact that the Germans speak such good English.

**Christopher Harvie:** We tend to think about the likes of George Mathewson and suppose that, because the board of Deutsche Bank conducts its business in English, everyone in Germany does. Nevertheless, it is crucial to know technical German. As you say, that is what instructions are now printed in—they are not printed in English in Germany because no Anglo-Saxon country does the manufacturing any longer.

**The Convener:** That is a fair point rather than a question, but feel free to comment.

**Dr Hiley:** Yes. You are talking about instruction manuals, which are what translators work on a lot. If that work is done on the cheap, the instructions are not going to be helpful because they will not be correctly translated.

**The Convener:** As in the case of translations from Swedish to English, shall we say?

Thank you very much for your time, Dr Hiley, and for a very interesting session. I am sure that it has provided some useful information for our inquiry.

10:50

*Meeting suspended.*

10:53

*On resuming—*

**The Convener:** We welcome Professor Pete Downes and Carol Booth, who are our second panel of witnesses. I invite you to introduce yourselves and to make opening remarks. Then, we will have questions.

**Carol Booth (Scotland's Colleges):** I am part of an organisation called Scotland's Colleges, which is an amalgamation of Scotland's Colleges International, the Scottish Further Education Unit, the colleges open learning exchange group—COLEG—and the Association of Scottish Colleges. That is a relatively new format for us. I am the manager for the international team, and my responsibility is to seek business, commercial and aid-funded opportunities for the college sector. Where possible, we assist with information on visas, recruitment and so on.

**Professor Pete Downes (Universities Scotland):** I am the principal of the University of Dundee, but the context in which I am here is in representing Universities Scotland. I was recently elected as the convener of the research and knowledge exchange committee of Universities Scotland.

We tend to think of the role that universities play in international trade as being focused on overseas students and the export value of that trade, which it is, in effect. Members are well aware of that. We devoted some of our written submission to describing that part of our business.

We have views on public bodies such as Scottish Development International and the British Council, with its role in helping us with overseas students and with another area that I will discuss in a minute, which is the commercial value of our research activity. We made much mention of SDI and the British Council in our submission. I can comment on that further, but we have made our

position clear about the support that they give—we are very positive about it.

I will emphasise another critical role that universities play in supporting exporters, international trade and overseas internal investment in Scotland, and it relates to our international reputation and our research activities. There are four important aspects. First, Scotland's universities are one of our truly internationally renowned industries. It is not inappropriate to describe higher education, or Scotland's universities, as an industry. It has many characteristics that we can recognise using that term. Particularly at this time, it is important not to neglect our universities and the roles that they can play.

Secondly, this is a time when Scotland needs to show an international perspective. Scotland's universities have been doing that by expanding their international links and making that expansion a sector priority. They can do more, and will continue to do more, but it is important to understand that our international links and our power to catalyse things that are important depend on our reputation. Internationally, our reputation depends on the core support that we receive from Government.

Thirdly, the research and development strengths of the sector should be recognised as a tremendous asset for Scotland. There is a need to explain how that asset functions and needs to be supported. It attracts inward investment, and it is responsible for growing industry in Scotland. We have begun to work up papers on the adoption of higher education as the seventh key economic sector in Scotland—we have been developing ideas around what we call the knowledge services sector. That is an important concept to understand.

Lastly, universities have a role in economic regeneration. There are two important contexts to that. One is universities' role as drivers for economic regeneration as we recover from recession; the second is their role in regenerating cities and regions in Scotland.

11:00

There is powerful university activity that is truly international in Edinburgh and other major cities in Scotland. In Edinburgh, it is sometimes harder to see the impact, but it is there. It is seen more clearly in places such as Dundee, where I am based. The university sector—both the University of Dundee and the University of Abertay Dundee—has played a leading role in generating a post-industrial perspective and in changing the perceptions of that city. That occurs elsewhere; Dundee is just the example that I know most

about. When we examine those examples, we begin to expose the key role that universities play.

**The Convener:** Thank you for those opening remarks. We will start where we finished with the previous panel. What are your views on language education in Scotland? Are we doing enough, and are we teaching the right languages at your level?

**Carol Booth:** I agree with the previous witness, Dr Hiley, who said that we should consider Chinese, Russian and Spanish. Travelling internationally, I have found that we need those languages rather than French, German or English. English is the language of business, but when we get down to the more technical and workforce development aspects of training that are needed in country—particularly in vocational education and training—people do not necessarily look to use the language of business.

**Professor Downes:** The key issue is cultural understanding, and language is a key component of the cultural differences that we need to be familiar with. Universities should certainly play their part in ensuring that our students understand a breadth of culture, and we do that in many ways. One is by bringing overseas students onto our campuses, and another is through exchange mechanisms to send our students abroad. We need to add that to the mix of issues in the teaching of language.

As Dr Hiley mentioned, we do not do language education too well in the UK. I am not in a position to analyse why that is the case—it may be because of the tendency for English to be an international language of business and education—but we need to change that perception. Universities need to play their part in that, but the work needs to be integrated. The comment that it starts in primary schools is important, and we need to integrate the way that we both teach language and expose children and students to overseas cultures.

**Rob Gibson:** I want to take up the point on how the universities and colleges work in collaboration with organisations for export and so on. Professor Downes, you say in your submission that SDI and others have been closely involved and that

“A sector-wide, national approach to international trade taken by relevant agencies has proved helpful.”

However, you go on to say that

“The most effective approach would be one which includes a client management focus.”

Can you expand on that? How could it be done in practice?

**Professor Downes:** I would not want to overemphasise that point. The main thrust of the comment in our written submission is of the great and effective support that we get from SDI on the

one hand and from the British Council on the other. We have raised one or two minor detailed points that relate to the diversity of interactions that we need in different markets, and we believe that in some markets the British Council has not been as effective as it might be. We do not believe that that is something that the committee can necessarily influence greatly because it is a UK-wide issue, but I suppose that that is for you to decide.

**Rob Gibson:** We have an advocacy role in how those arrangements serve us.

**Professor Downes:** Our key point is about the relationships that individual universities have as clients with the British Council and about deriving the most effective analysis of key markets for us. That is what that point is about.

**Rob Gibson:** Do the colleges have anything to add on that?

**Carol Booth:** We work closely with SDI's education team. We have found it very helpful that such a team has been in place over the past couple of years. The team has been very supportive of us, both in aid-funded business and in looking for commercial opportunities for the colleges.

My role is to look for larger opportunities rather than the individual opportunities in which the colleges have previously been involved. We are much more involved now in collaborative ventures with the Scottish Qualifications Authority. We also work with the British Council abroad and with SDI. We will form consortia of colleges to address opportunities. If we think that there is an opportunity for a university or for the SQA to be involved, we will look at bringing in those partners as the opportunity develops.

However, that is still a developing picture in Scotland. We could perhaps do more to make that model more effective in the longer term. At the moment, each relationship that we broker with a college has to be done on an individual basis. We could perhaps do that better.

**Rob Gibson:** Should that kind of collaboration be co-ordinated with the help of SDI?

**Carol Booth:** SDI can help us with that, but no single agency is currently charged with doing that kind of work. It would be helpful if some body was clearly given the responsibility to do that for Scotland.

**Rob Gibson:** Is that in the light of a hope that increasing numbers of students from other countries will come here to study?

**Carol Booth:** No, not necessarily students. I should make it clear that we are looking at delivering in country rather than necessarily

attracting students here, which I think is a diminishing market. In the long term, we must look at how we work more closely with the Governments and the institutions to form collaborative ventures whereby we go out and work in country. Yes, we will bring people back in, but they will not necessarily be students. They could be trainers or the many people who might be involved in projects.

**Rob Gibson:** That is a worrying concern, given the statement in the Universities Scotland submission that income of some £400 million per annum comes from overseas students. If that market is diminishing, what will replace it?

**Professor Downes:** That market is dynamic and changing. Carol Booth has described not so much a diminishing market as a changing approach to that market. Universities are participating in exactly that change in approach.

For example, we offer overseas students the opportunity not simply of studying on our courses here but, through key partnerships with other universities, of studying in their own institution as well as spending some time in Scotland. The duration of such courses varies—they can be three plus one or two plus two—as there are all kinds of arrangements. We also have several examples of Scottish universities that have established campuses in overseas locations, as Carol Booth has talked about with respect to FE.

As all those opportunities open up, universities and FE institutions need to be flexible and dynamic in their approach in order to maintain and develop market share. Universities Scotland believes that that market still has room to expand, but it will not expand if we remain static in how we approach it.

**Marilyn Livingstone (Kirkcaldy) (Lab):** My first question is for Professor Downes. In his introduction, he talked about the importance of Scotland's reputation abroad as a provider of education in the knowledge economy. In my previous life, I was the head of the school of business in Adam Smith College in Fife, so I know how important that reputation is, especially in international work. You spoke about the need for support from Government to allow that high-quality reputation to continue. Will you expand on that?

**Professor Downes:** A straightforward point from my perspective is that universities are supported by Government through the Scottish Further and Higher Education Funding Council and it is that core support that develops our reputation on which we trade. We should not consider our commercial activity and the international trade in which we engage as independent from the fundamental purpose and role of a university, supported by Government.

The one extends and develops from the other. The commercial activity absolutely depends on the strong international reputation of the university sector in Scotland.

**Marilyn Livingstone:** I know that significant changes have been made and that new partners have come into the mix. How does the university sector see that support?

**Professor Downes:** Do you mean the mix of funding sources?

**Marilyn Livingstone:** Yes.

**Professor Downes:** Currently, for every £1 that universities in Scotland receive from Government through the funding council, they earn fractionally more than another £1 from other sources. Many of those are the overseas sources that we have talked about, whether that is overseas students or various elements of commercial interest in research activity. In the more research-intensive universities, the factor from other sources is higher. In my case in the University of Dundee, the proportion is 1:1.5 and, in one or two other universities, it might be slightly more. That is an important thing to consider.

If the two aspects were not intimately connected, one might argue that reducing funding to universities by 10 per cent would result in a drop in total funding of less than 5 per cent. However, the reality is that, if that core funding was taken out, we would lose both sources of income, because the core funding leads to the other funding. Does that make sense?

**Marilyn Livingstone:** Yes—and the issue concerns us. I know that there have been changes in the weightings, for example.

When we took evidence on the Chinese market, we were told that, particularly with education and training, we do fairly well in the main areas in China, but that there are issues in the markets outwith the main towns and cities. Does the university sector have enough knowledge about untapped and developing markets? How does information on those markets feed through to individual colleges and universities?

Carol Booth might like to answer that, too.

**Professor Downes:** The development agencies can synergise with higher and further education bodies to generate that knowledge. We are talking about a vast country and market that has a hugely complex education system with huge variation in the quality of institutions, their individual missions and how they might interact effectively with Scottish institutions. Universities generally—and, I guess, the FE sector, although I am sure that Carol Booth will comment—do not have sufficient resources to map out all that in advance. We will develop our knowledge through the nodes that are

established and we will undoubtedly work outwards, but assistance is required. For example, it would be valuable if the scouting that we need prior to our considering a significant engagement was co-ordinated.

11:15

**Carol Booth:** In the past two and a half years, we have examined the Chinese market closely. We came to the conclusion that it would be extremely difficult for the college sector to enter the Chinese market, as the main areas have been covered. The level of English in the institutions with which we would wish to work is quite low, which makes it a difficult market for us to enter. We have chosen to go down the route of collaborating with the SQA, because it already has a strong foothold in the Chinese market. That is the way in which we will be best served in that market, and it will allow us to expand gently and get used to the culture, so that we can help the colleges to get in more effectively.

**Marilyn Livingstone:** Many agencies have a locus in this area, such as Skills Development Scotland, Scottish Enterprise and SDI. Both of you have alluded to the fact that early collaboration is important. Do the many agencies that fund and support you have a deep enough understanding of the needs of colleges and universities with regard to their international work? Is the collaboration working? Could it be better?

**Carol Booth:** Collaboration across the agencies could be a lot more effective. I am not sure that many of the people from those agencies that are based in country are aware of what the college sector in Scotland can offer, and they do not understand that we are trying to market a package.

In the course of my international travels I have come to realise that, at the moment, many countries need vocational education and training more than they need university education, because they need to develop their workforce. Many of our agencies in those countries do not understand that. They understand the university level extremely well, but they do not yet understand the college level. There is a lot of work to be done in that regard.

**Marilyn Livingstone:** Knowledge and education are important to our economy vis-à-vis international trade. The committee will make some recommendations to Government, so it would be helpful to know what your key priority is in that regard. What would be the one change that could be made in order to help you access markets more easily?

**Carol Booth:** Resource is one thing that we need. A better understanding of the second and

third-tier cities in the market would be helpful. We need to do a lot more research to understand what is needed, particularly at the college level.

We are a small team—there are only three of us—and it would be helpful if we had a bit more resource, if the education team at SDI had more resource and if there were training sessions for British Council staff and others in country who could help us to get our message across.

**Professor Downes:** As you rightly pointed out, we are reasonably satisfied with the relationships that we have and the level of understanding that exists about higher education provision in relation to overseas students. I am sure that Carol Booth's comments about resources are correct, given that we are trying to access more markets and ensure that the market share does not fall but is enhanced.

**Stuart McMillan:** Within the past couple of weeks, a representative from a college in Scotland told me that there were too many colleges in Scotland and that, in order to make the market in Scotland a bit easier to understand and to enhance the marketing opportunities outwith Scotland, the number should be reduced. Carol Booth said a few moments ago that there should be more emphasis on vocational training. What is your response to the view that there should be fewer colleges?

**Carol Booth:** There is a big need for vocational training in the international market and we would like to be able to offer more of that. The colleges need to be able to work together as a package for Scotland rather than independently. My agency tries to offer a single point of contact so that when international people look at Scotland, they come to the Scotland's Colleges International team, and we can then disseminate information, questions and requests out to the college sector. It is not necessarily a case of needing fewer colleges; it is just about being able to access the colleges in Scotland more effectively.

**Gavin Brown:** I have two brief questions, the first of which is for Carol Booth on a point of clarification. You suggested that the key languages were Chinese, Russian and Spanish, and that there might be less emphasis on French and German.

**Carol Booth:** Yes.

**Gavin Brown:** An earlier witness suggested that there ought to be less French, but my impression of her evidence was that she felt that German should still be in the top tier of languages. She described German as the language of engineering. Is it your view that German should be relegated slightly?

**Carol Booth:** You need to put my remarks in the context of my work. I do not necessarily work at the European level. The colleges generally do that very well, and I do not tend to get involved in it. I am much more interested in the international markets. The three languages that I suggested are important.

**Gavin Brown:** That is a helpful clarification. My second question is to both witnesses. We have heard a fair bit about China today and about some of the European countries. Are there any wild card countries out there? Are there countries that other people do not talk about a great deal but in which you think we should do a bit more?

**Carol Booth:** I would certainly look at the Commonwealth of Independent States countries—for example, Kazakhstan, Azerbaijan and, potentially, Russia as well. All those countries have huge opportunities in the longer term. There are still many issues with them—they can be quite difficult politically and are very bureaucratic—but I have done a lot of work in Kazakhstan, so I understand the area quite well. It has a long way to go, but I think that there is a long-term opportunity there.

**Professor Downes:** I am more or less of the same opinion. We already have good, developing relationships in those areas in relation to oil and mineral issues, which fits well with an energy agenda—that is quite important in our university. In addition, I would not overlook South America.

**Christopher Harvie:** In terms of South America, would you still maintain the supremacy of Spanish as opposed to Portuguese?

**Professor Downes:** I am not a languages expert, so I pass that question on to somebody else.

**Carol Booth:** Portuguese is also important, particularly if we are talking about the oil and gas industry. For example, Brazil has huge opportunities, and we really need Portuguese for Brazil.

**Christopher Harvie:** That leads to another point, which is that we will inevitably see a very great amount of basic technical construction of machinery and so on carried out in China. Would it not be advisable to build an educational element into that so that teams would go out from Scotland and work alongside people in the factories—I am thinking of people at college level rather than university level—and derive the necessary linguistic equipment from that? We should remember that that was what the Chinese themselves did before 1997, when they came in very large numbers to industrial areas in Europe.

**Carol Booth:** That would be helpful. Also, from a cultural point of view, as we discussed earlier,

that would help the college sector to get a much better idea of how it can work more closely with a country such as China.

I also make a plea for India. We are doing an awful lot of work in India, where the language barrier is not so great. We have also found it culturally much easier to work there.

**Christopher Harvie:** I make the minor point that, while the Government and others in Scotland have spent about five years trying to build 35 miles of railway line to the Scottish Borders, the Chinese have built a 600-mile express line over the same period, more or less from Beijing to Hong Kong. That gives some idea of what we can jump on to in China.

You have some reservations about the policies of the British Council. Do you think that our relationships with Germany, which is a large, technologically advanced country, were at all helped by the fact that, about seven years ago, the British Council closed down its entire provincial organisation in Germany?

**Professor Downes:** I would not like to comment specifically. I could get some feedback on that from my colleagues and inform you of that subsequently, but I do not have enough personal knowledge to be able to comment.

**Carol Booth:** I would say the same. I do not have enough personal knowledge to answer that question.

**Christopher Harvie:** Germany is a highly decentralised country but all its British representation, apart from SDI, which is in Düsseldorf, is concentrated within 1km<sup>2</sup> in Berlin.

**The Convener:** We can discuss that when we get to Düsseldorf.

**Lewis Macdonald:** I have a quick question. You mentioned the foothold that the SQA has established in China and how important that is. Part of the secret of that was the promotion of Scottish education as a whole. Is there a role for the SQA or another Government agency in creating the field in which universities and colleges can operate by promoting Scottish education as a whole?

**Carol Booth:** Education UK Scotland is the agency that is trying to do that in China and India. We are working closely with it, and the college sector funds some of its activity. We need to continue to work closely with Education UK Scotland to ensure that it completely understands the package of vocational education and training that we are trying to put forward. We are working with them on that and we are seeing quite good results from some of the campaigns that have taken place recently.

**Lewis Macdonald:** Does the university sector have a view on that?

**Professor Downes:** I have nothing specific to add to that comment.

**Stuart McMillan:** My question is for Professor Downes. Towards the end of your written submission, you talk about the UK dimension and raise various points about the support that is provided by the Scottish Government and your frustration with the UK Border Agency. Your final point is on the UK agencies and the Scottish Government agencies. You state:

“There is a continual need for these agencies to be aware of each other and to work collaboratively to best effect.”

You also talk about the leading role that the agencies play in some of the initiatives to promote the Scottish university sector, which is not always acknowledged in London. Can you provide any examples of initiatives that would have been promoted better by the Scottish university sector or the Scottish Government than by others?

**Professor Downes:** The issue is relatively general rather than characterised by specific examples, and it relates to the fact that education in Scotland is different from education in England. Those differences are often not fully articulated or understood by all those who act on behalf of the UK-wide sector in the British Council. That is what I was trying to say earlier, but I did not make the point very well. That leads to a number of difficulties that we find ourselves correcting after the event rather than dealing with up front. Intimate knowledge of the Scottish education system as a whole is the important issue rather than any specific outcomes that result from that.

11:30

**Carol Booth:** I agree completely that, in the British Council at UK level, there is still a lack of knowledge about how the system operates in Scotland, such as the differences between our college sector and the further education sector in England. At the moment, the colleges do not articulate that as well as they could, but we are trying to work with them to remedy that.

**Stuart McMillan:** What kind of activities do your sectors undertake and what interaction do you have with the British Council to try to inform it of the differences between the sectors in Scotland and England?

**Carol Booth:** We have offered some practical training sessions in India with some of the British Council staff and the Education UK Scotland staff. That has been quite effective to an extent, but one of the issues is that they go back to their day jobs and tend to revert to their previous mindset.



Because they deal mostly with the English system, they do not necessarily find it easy to differentiate between it and the Scottish system. We could do more to try to help if we could have access to more of the international British Council staff in one place at one time. Perhaps they could come up to Scotland. Something like that would help.

**Professor Downes:** One specific example of how things can go wrong as a result of the lack of understanding is visa provision for overseas students coming to Scotland. As provision began to be tightened up for all the obvious and appropriate reasons, the failure to recognise that there was a four-year undergraduate degree in Scotland created enormous difficulties for Scottish universities because a three-year visa was provided.

As Carol Booth says, the tendency is that, unless we are constantly in dialogue with them, British Council staff go back to their day jobs and, because the English system is most of what they experience, they forget the Scottish system. It is not culturally embedded in the way that they think about supporting us. That is a generic point that spills out in many different, almost unpredictable ways.

**Stuart McMillan:** This will be totally outwith your control but, if more British Council staff were educated within Scotland, might the organisation have a better understanding of Scottish needs and concerns currently and looking ahead?

**Carol Booth:** That would help, but my understanding is that, unfortunately, the British Council is reducing its staff by 30 per cent across the whole network at the moment, so I do not think that it is likely that it will take on many people with Scottish connections soon.

**Professor Downes:** I would make exactly the same point.

**The Convener:** There are areas of education in which Scotland has particular strengths and niches that we can market abroad. I can think of some examples in my constituency. For example, Elmwood College is pre-eminent in golf education and has strong links in China as a result. In Dundee, there are the life sciences and games industries. Are we sufficiently able to identify potential markets for those niches? For example, in Taiwan, there is a crying need for more support and links on life sciences. Is Universities Scotland aware of those issues and, if so, what is it doing to exploit them?

**Professor Downes:** Universities Scotland would not particularly be aware of that; the nexus for that would be the universities themselves and their relationship with agencies such as SDI and the British Council.

The issue is complex. Although we have a good understanding of the markets and a good relationship with the agencies that help us to access them, the situation is, as I said right at the start, very dynamic and we need to be constantly on the move with regard to the markets that we access already, the new markets that we need to be engaging with and the new types of provision that relate to them. We have to inject that sense of dynamism into the universities sector and make it clear that we expect and require support from those agencies. When I talked about scouting, I meant not only in the geographical sense; we should also be horizon scanning to see how those markets might change and ensure that we keep moving forward instead of working hard simply to keep up.

**Carol Booth:** The college sector has taken a slightly different approach. Initially, we looked a lot at geographical markets, but recently we have started to take a more sectoral approach with, for example, our alliance for locating leads in international education for Scotland—or ALLIES—project, which focuses on sectors such as oil and gas, life sciences, the creative industries and hospitality and tourism. We have been working with the SDI education team to identify international commercial opportunities for those sectors. The approach has been quite successful and we will probably continue with it.

As I said before, our team is small and there is a limit to the amount that we can do with regard to markets. India and China, for example, are huge markets and numerous projects could be undertaken there over the next few years.

**The Convener:** In addition to working with SDI and the British Council, do you work with UK Trade and Investment and the Foreign and Commonwealth Office to ensure that they are aware of and are happy to promote opportunities in Scotland?

**Carol Booth:** Yes, we have worked quite a lot with them. I have been on quite a few trade missions and I have very strong contacts with UKTI and SDI staff in some countries. Where appropriate, we use UK-level and Scotland-level staff.

**Professor Downes:** As does the higher education sector. We are well aware of those contacts and, indeed, we will use all the levers that we can find to develop those business opportunities.

**The Convener:** With regard, say, to life sciences or the games industry, does UKTI promote Scotland equally or is it inclined more to promote what happens south of the border?

**Professor Downes:** That brings us back to the generic point about UK-wide agencies. I doubt

whether there is some perverse unwillingness to promote Scotland, but there is a relative ignorance of the differences between Scotland and England in a number of different situations. That is probably more important as far as education is concerned; there are probably fewer differences to consider in the research elements that I referred to in my opening remarks, in which the critical issue is reputation. It could be argued that Scotland punches somewhat above its weight in that respect, and we should continue to trade on that.

**Christopher Harvie:** In my long and on the whole fruitful collaboration with the British Council, I have found that, by the time you get to know people there, they have retired. They seem to go in their mid-50s, whereas, although I am over 65, I am still around and still active. There should be some system of putting those people on a reserve list, say, to be pulled in as advisers. They have lots of information on foreign co-operation, but at a time when they can be really valuable they are off spoiling grandchildren or playing golf.

**The Convener:** I think that that is more of a comment.

Could we make more use of—I was going to say “exploit”, but that is probably not the right term—the pool of overseas graduates in Scottish universities, who could work with companies in Scotland on some of the cultural issues that the previous panel highlighted? Also, could they help to expand the globalscot network and be used a bit more effectively to identify opportunities and support Scottish companies abroad?

**Professor Downes:** I could not agree more. Our alumni are important to us in many different ways, and our overseas alumni are particularly valuable. In our submission, we mention the value of influencing overseas students who study in Scotland and then go back where they came from to pursue their careers. Those people are the businesspeople of the future and we will not recover and benefit from the investment that we are making now unless we maintain those contacts and make clear the potential mutual benefit.

**Carol Booth:** The colleges track and use some of their alumni—for example, the Indian, Chinese and other overseas students who have gone through the system—to keep up contacts and get in to talk to other people in those countries. The approach has been very helpful.

**The Convener:** That concludes our questions. I thank Carol Booth and Pete Downes for giving us their time and some valuable evidence.

11:42

*Meeting suspended.*

11:48

*On resuming—*

## Budget Strategy 2011-12

**The Convener:** The next item on the agenda is consideration of the budget strategy for 2011-12. We are beginning our scrutiny of strategies and plans in the Scottish Government and key public bodies to respond to the tighter financial climate over the coming years. I am pleased to welcome to today's meeting senior representatives from Scottish Enterprise, Highlands and Islands Enterprise and Scottish Development International. We record apologies from Lena Wilson, the chief executive of Scottish Enterprise, who has been stranded by volcanic ash on the volcanic island of Lanzarote; obviously, the ash is from a different island. We wish her a speedy return to the country. I invite Crawford Gillies from Scottish Enterprise, Sandy Brady from Highlands and Islands Enterprise and David Smith to introduce their teams and themselves and to make some brief opening remarks, before we move to questions.

**Crawford Gillies (Scottish Enterprise):** Good morning. This morning I am joined by David Smith, the acting chief executive of SDI, and, in Lena Wilson's absence, by Douglas Colquhoun, the director of corporate planning and performance at Scottish Enterprise, and also by Julian Taylor, the director of research and policy. We are all delighted to be here with you today. As the convener said, Lena Wilson sends her apologies.

When Lena Wilson and I met the committee back in December, we made a commitment to make every effort to ensure that we kept you properly informed of the activities of Scottish Enterprise and, in particular, of our priorities, budget plans and so on. We also listened to what you said about how we presented our evidence and some of the language that we used. I hope that you will agree that we have responded and delivered on our commitment to greater clarity and transparency, and that you see that in our new business plan.

Economic growth will come from Scotland's businesses growing their markets, increasing their productivity and taking advantage of global opportunities. Scottish Enterprise wants to help to create a business environment that will let them do just that and result in our having more globally competitive Scottish businesses and globally competitive sectors, in which Scotland has real competitive advantage and world-class expertise.

The business plan that we have submitted to you and that will be published tomorrow is designed to ensure that we invest where we see clear opportunity and maximum economic benefit for Scotland. In delivering the plan, we will face key difficult choices; I know that today you will want to explore the key strategic drivers behind

the decisions that we have made about what we do and do not do. In short, we will focus on the areas in which we have the greatest economic impact, whether by working more intensively with companies that can have a disproportionate impact on the economy or by making step changes in the opportunities in Scotland's key sectors, such as energy, life sciences and food and drink.

We want to get the best return on our investment, so we need to be as flexible and opportunistic as possible, just like our best businesses. Over the past 18 months, we have shown how we have responded to the rapidly changing economic circumstances, modifying and tailoring our support to companies as the recession has unfolded. We intend to remain fleet of foot, guided by both macroeconomic analysis and direct, real-time feedback from the businesses with which we are working.

We want to raise the bar for Scotland's productivity performance by helping our companies to reduce costs, to improve processes, to increase efficiencies and to look at opportunities to target new markets, both domestically and internationally. To do that, we also need to look at the leadership in the Scottish business base. As I travel around visiting businesses, it strikes me that, typically, those businesses that are doing best have leaders with ambition and vision. We need more Scottish businesses with those characteristics.

In approving the plan, the Scottish Enterprise board is well aware that trading conditions are likely to continue to be tough for many businesses for some time to come. In addition, we have and are likely to have a tight budget going forward. Consequently, we must focus on where we can have the greatest impact with the budget that is available, while at the same time demonstrating value for money and protecting the public purse. For that reason, we will continue to build on recent successes in improving our operating efficiencies. That work has been under way for some years.

We are committed to greater public sector alignment, primarily because it leads to greater economic impact. However, the budget pressures that all of us face will provide additional impetus for greater joined-up working. Working with Lena Wilson's team, Scottish Government colleagues and other agencies, we can achieve new levels of collaboration behind a common purpose of economic growth. As our submission states, the board has been closely engaged in approving the budget plans. As an organisation, we benefit hugely from the wide expertise and experience that our board members and partner organisations bring from across the private and public sectors.

We have been robust and direct in our discussions with the Government, but we have also been realistic. We have an ambitious plan with a strong pipeline of projects. We have also given careful consideration to how we will respond if we have fewer resources. I hope that our written submission and our business plan, which you have received, have provided the information that you seek. We are happy to take any questions that you have.

**Sandy Brady (Highlands and Islands Enterprise):** Good morning, convener and committee members. I shall keep my remarks brief. My colleague Alastair Nicolson, who is the head of planning and economics at Highlands and Islands Enterprise, joins me. I am still the organisation's acting chief executive.

We welcome the opportunity to participate in the budget strategy phase of the Parliament's and the committee's consideration of the budget. The committee invited us to provide information on the deployment of HIE's budget so, like Scottish Enterprise, we submitted our recently completed operating plan with our submission. The plan sets out our proposals for the current financial year in detail and for the following two years in outline. Alastair Nicolson and I are happy to answer any questions on the plan.

We recognise that the committee has a particular interest in examining how we will approach the challenges that are likely in later years and which are associated with significantly tighter budget settlements. As an agency with wide powers to assist economic and community development, we continually make choices about what we support, so the principles of discretionary decision making are well established. Our discussions about 2011-12 and the years beyond are at an early stage, but we are happy to describe how HIE will approach the policy issues and the practicalities that are involved in making the tough choices that are ahead.

**David Smith (Scottish Development International):** Thank you for inviting me to participate in the session along with Crawford Gillies, Sandy Brady and other colleagues from Scottish Enterprise and Highlands and Islands Enterprise. As I said at the committee's round-table discussion on international trade on 24 March, international trade and investment are critical to the economy's future—our submission, our operating plan and the business plans of our partners demonstrate that.

The work of SDI—Scottish Enterprise's joint venture with the Scottish Government and HIE—and of the globalscot network is vital in helping to capitalise on the potential that trade and investment offer. Our focus will be on supporting Scottish companies to capitalise on global market

opportunities, particularly in high-growth sectors and markets. That provides the opportunity for more companies to develop the skills and expertise that are required to succeed in growing exports, which is extremely important, and to secure high value investment, which will enhance the Scottish economy's competitiveness and provide new job opportunities.

I am happy to answer questions.

**The Convener:** Page 4 of Scottish Enterprise's submission refers to the budget plans and commentary in relation to 2010-11. The changes between your previous submission and the final plan show a bottom-line increase in cash investment of £25.9 million. You explain that the increase comes from a one-off grant of £12 million from the UK strategic investment fund, from £12.5 million that is shown in your budget for the first time but which is not new money and from £1.4 million of minor adjustments to income assumptions. Is that correct? If so, what are the changes in income assumptions?

**Crawford Gillies:** That is correct. The £1.4 million is the net result of several changes that are laid out on page 5 of the submission.

**The Convener:** A large part of the income for Scottish Enterprise and Highlands and Islands Enterprise—other than grant in aid—was assumed to come from property disposals. How well did you meet the target for property disposals in the financial year that has just passed? Do you expect difficulties in achieving that budget for this year? What is Scottish Enterprise's budget for property disposals this year?

**Douglas Colquhoun (Scottish Enterprise):** In the past year, we achieved the target for supplementing grant in aid with property disposals. We took a couple of tactical decisions at the year end to defer a couple of large disposals, because we did not think that they would be concluded in time for the year end, and we amended our expenditure plans accordingly.

**The Convener:** What is the figure for property disposals in this financial year?

**Douglas Colquhoun:** The budgeted income for this financial year from property disposals is £20 million. That is set out on page 9.

**Sandy Brady:** We had a modest capital receipt in the financial year that has just finished. We recognised that the appetite for purchasing properties would be diminished by economic conditions and that proved to be the case, although we met the target that we set.

As you see from the operating plan, we have revised that target for this financial year to £3.1 million. We are anticipating a gentle growth within that over the two planning years. That is probably

a little optimistic, but we think that we might see some sort of rebound after the depression in sales over the past 18 months to two years.

12:00

**The Convener:** I move on to the budgets that you have included for 2011-12 and 2012-13. For Highlands and Islands Enterprise, there is an assumption of a flat line in grant-in-aid funding. In fact, I think that the only increase in the budget is the potential increase in property disposals or income to which you referred. For Scottish Enterprise, an increase of almost 10 per cent in grant-in-aid funding is assumed. Where does that figure come from? In the table on page 9 of the Scottish Enterprise submission, the grant-in-aid figures go up from £201.3 million to £222 million. What is the basis for that assumption?

**Douglas Colquhoun:** The indicative resource allocation for 2010-11 is net of the accelerated capital expenditure reduction of £35 million. We are assuming that, for 2011-12 onwards, that £35 million will be reinstated to the Scottish Enterprise baseline budget. As part of the draft budget for 2010-11, the cabinet secretary announced a further reduction in the baseline of £9.5 million, so the net figure is the £35 million less the £9.5 million.

**Lewis Macdonald:** I have a couple of questions about the projections that Scottish Enterprise has presented to us. The money made available by the UK Government through the strategic investment fund is clearly a welcome boost. Might additional projects attract such funding, through the same route as the BioQuarter? I am thinking for example of energetics and similar projects that Scottish Enterprise will run.

**Julian Taylor (Scottish Enterprise):** In general terms, yes. We will continue to make the case for that funding because we feel that we have a strong pipeline of projects that could come forward.

**Lewis Macdonald:** What is the engagement process? What criteria do you need to satisfy in order to attract that kind of funding?

**Julian Taylor:** It depends on the schemes as they come forward from the UK Government. There is a three-way conversation involving ourselves and colleagues in the Scottish Government and the UK Government. We are very close to appropriate representatives in the relevant departments in both organisations. Equally, we ensure that we stay close to organisations such as the Technology Strategy Board, which has other related investments that could be made, to ensure that we get a fair share. Individual programmes have different eligibility

criteria, but we feel that we are well placed to capitalise on other sources of income.

**Lewis Macdonald:** In this context, you are not simply acting as an intermediary; your active engagement secures the funding.

**Julian Taylor:** I will digress and talk about the Technology Strategy Board. We welcomed it to Scotland recently and were able to demonstrate Scotland's assets. I hope that we changed its perception, so that it saw more opportunity for its investment in Scotland. There is very much an active relationship.

**Lewis Macdonald:** That is helpful. The other heading that I wanted to check with you was commercialisation and the development and exploitation of intellectual assets. Clearly, that is one of the lines that has continued to go down. Am I right in thinking that the reduction in spend for 2010-11 of £3.2 million is in addition to the reductions already presented to us in previous spending plans? Is that an accurate summary?

**Julian Taylor:** Yes. It is important to recognise that that also reflects a rebalancing within that broad area. We have seen, through investigation and evaluation evidence, that we need to expend more effort on the commercialisation of the intellectual assets, ideas or technology that Scotland has and less on the creation of those ideas. It is about rebalancing, so that we expend more on genuine exploitation and less on the creation and stimulation of ideas.

**Lewis Macdonald:** It is a rebalancing, but is it fair to say that it is also a limiting of ambition? Are you stepping back from blue-sky thinking in relation to the energy industry's innovation, which you have previously supported through the intermediary technology institute?

**Julian Taylor:** I think it is about ensuring that the ideas that are exploited have a realistic chance of commercial exploitation, so that there is a genuine line of sight to market and a route to market. We need to ensure that there is not a complete scattergun approach and that there is a genuine focus on opportunities that are realisable in Scotland.

**Lewis Macdonald:** Does the logic of that approach mean that that line will continue to decline because you will continue to reduce your commitment to innovative developments at the cutting edge of the intellectual assets that currently exist?

**Crawford Gillies:** I would not necessarily say that that is the case. As we rebalance and focus more on entrepreneurial support, we must evaluate over the next year or so how effective we are being. If we are being effective, I see no reason why we should not increase our support in

that area. On the other hand, if we find that we are not getting the returns in spite of more focus on entrepreneurial support, the decline that you recognise will continue.

**Lewis Macdonald:** I suppose that the question behind the question that I asked is how you will know whether the strategy is correct, given that your investment in the brand-new end of innovation is declining quite significantly. It is clear that there is unmet demand for support on the entrepreneurial side and exploiting new intellectual assets that have already been realised. How will you know what you are missing? That question is not easy to answer.

**Crawford Gillies:** Julian Taylor's job is to evaluate such programmes.

**Julian Taylor:** That is a notoriously difficult question. We have introduced more specific criteria relating to the success that we would expect to see from such research programmes. We call such companies 5-by-5 companies for shorthand—that is, they are companies that can generate a turnover of £5 million within five years or investment of £10 million. The criteria are specific, hard and relatively short term. Equally, we need to monitor the sector strategies to ensure that there is a pipeline of good ideas in areas in which Scotland has global competitive advantage—for example, in stem cells rather than in life sciences in general. However, there is no crystal-ball answer to your question. It is about monitoring the flow of ideas and ensuring that companies are formed as a result or that technological intellectual property is applied in existing companies.

**Lewis Macdonald:** If the investment that you still apply at the cutting edge is productive, you might have to look again at what the priorities are in the area.

**Julian Taylor:** Yes.

**Rob Gibson:** We have received evidence from Reform Scotland that suggests that we should consider the real-terms money that has been available, which has, of course, increased by around 60 per cent during the devolution years up to this point. Reform Scotland suggested that the annual increases and additional resources have not led to the expected improvements in public services. I know that the budgets for the enterprise networks have taken a slightly different trajectory—at least, that has happened earlier than is the case with other budgets. How do you measure the value for each pound that is invested? Is there a common method of measuring that and finding out the exact value of each pound that has been put in through the enterprise networks?

**Julian Taylor:** We have spent a number of years defining an evaluation methodology that withstands testing by academics and commercial independent evaluators. We apply that methodology, which is robust, to all individual projects and, increasingly, to the programmes of support that we provide. Most of the activity that we have undertaken has been robustly evaluated in the past two or three years. We have covered all our account-managed activity, for example, and understand the input-output relationship—what we get out for the pound that we put in. We have just finished a piece of work on our internationalisation activity, and we have undertaken significant evaluations of a range of other activities, such as our research and development grant support. Such evaluations are done on a comparative basis. We can then build a model that shows the overall impact of Scottish Enterprise's investment. It is not an exact science, but we expect our investment in one year to accumulate over a 10-year period, so that there is an additional impact of around £2 billion on the economy. In other words, around £2 billion will be in the economy that would not be in it if it was not for the investment that Scottish Enterprise, alongside others, made. That is a net additional impact. We think that we have a robust methodology.

That takes us into the realms of prioritisation. As far as possible, we ensure that we support activities that will have a higher impact. As I said, however, it is not an exact science. In addition, we need a blend of activity.

We have worked with Scottish Government economists to ensure that our work is robust and that we have not just invented something that makes us look good. We genuinely believe that we have an independent and robust evaluation methodology.

**Rob Gibson:** Before I ask HIE the same question, do you use the same methodology that it uses?

**Julian Taylor:** We certainly collaborate on the broad principles of project appraisal.

**Rob Gibson:** No—I mean in relation to measurement, which you said is an inexact science. Given that we are trying to find out what we can do to make best use of the public pound, how much more precise can we get?

**Julian Taylor:** The overall measurement framework comes out of the Government's performance framework. In that sense, we have aligned our activity to the overall performance framework.

**Sandy Brady:** We have had good help from Scottish Government economists in the area. We work collaboratively with them and with our colleagues in Scottish Enterprise. We focus

particularly on gross value added. In our interventions in individual businesses and social enterprises, we try to estimate the GVA impact of our intervention over the next three to five years of the enterprise's life. As Julian Taylor said, that is not precise and we have to rely on the ability to capture good data at the point of interaction with each individual business.

You will see that our operating plan includes some estimates of the range of GVA that we might get for our larger transformational projects. Again, they are not precise. Some of the projects are at the business end of things, where we can be clear about what might happen, but others, such as the European Marine Energy Centre and the Inverness campus, are infrastructural investments, the estimates on which come from independent studies of the potential long-term impact that we might have in GVA terms. However, we are clear that that is part and parcel of trying to show the value that we are getting for Scotland. Alastair Nicolson has been leading the work and he might want to add to that.

**Alastair Nicolson (Highlands and Islands Enterprise):** In recent years, we have invested heavily in our staff and in project appraisal to ensure that our staff clearly understand the strategy that we are delivering and to help to determine the most important interventions that we can make to deliver on that strategy. We have been working closely with Scottish Enterprise, the Scottish Government and VisitScotland to ensure that, at the other end of the process, we can assess the outcomes that we are trying to deliver and quantify their impact on the national performance framework and the strategic targets that were set in the Government's economic strategy.

**Rob Gibson:** Julian Taylor talked about an extra £2 billion in the economy on the basis of a 10-year projection, whereas Sandy Brady talked about a five-year projection. Is that your thinking when you talk about gross value added?

**Sandy Brady:** We can make relatively short to medium-term assessments of individual interventions with businesses and social enterprises, although some assessments will be made over a longer period as the benefits will not flow through until seven to 10 years down the track. The projects on which we are more challenged are the longer-term ones. EMEC will bring returns to the Scottish economy over a very long period, and we are involved in investment in the UHI Millennium Institute for the long haul. The GVA impact of that project will stretch into the very long term—20, 25 or 30 years into the future.

**Rob Gibson:** At present, we are trying to get good value. Do you have the right staff and the right numbers of staff to achieve that goal?

**Sandy Brady:** The balance between our budget and the staff is broadly correct. As you know, we have just gone through a small voluntary severance scheme to try to reduce our numbers and transfer resources from running costs into front-line services. That has been important for us. One of the key things, however, is to ensure that all our staff understand what we are trying to do with our interventions. Not all our people on the front line are economists, so it is important to get them to understand the economic concept of gross value added and how it impacts at the local, regional and national levels. We are on a training track and we have made some good progress, but there is still work to be done.

We are reviewing the results of the past 12 months and looking at the data that we have captured company by company. Some of the information is good and robust, but some of it is less so. We need to go through it and check that we are consistent and fair in what we are trying to claim.

**Crawford Gillies:** From our point of view, we have an adequate number of staff. In fact, we continue to drive down our staff numbers and to seek efficiency savings. Could we make good use of more resources, were they available? Absolutely; we most definitely could.

12:15

**Rob Gibson:** The point is well made.

Does David Smith have anything to add on that?

**David Smith:** We operate in an integrated way with partners, particularly Scottish Enterprise. When it comes to the overall measurement or evaluation framework, we work in a highly aligned fashion with Julian Taylor and his team, and we share our thoughts and our approach with colleagues from Highlands and Islands Enterprise and the Scottish Government. In other words, we use the same framework for and the same approach to evaluating the impact of our activities.

On staff numbers and resources, we think that we have an appropriate balance at this point in time. We are essentially a sales force or business development team. Just as Crawford Gillies said, we could put additional resources to good use, were they available.

**Rob Gibson:** Are you not a large and amorphous organisation, as has been alleged in another context by recent witnesses?

**David Smith:** I would certainly not describe us as a large and amorphous organisation; I would say that we are highly focused. In the context of the global marketplace that we operate in and the global opportunities that exist, I would say that we

have quite modest staffing numbers and resources.

**Rob Gibson:** My final questions are on how money is spent and how we allocate it. Is there a greater ability to offer loans to people? Are loans now used to a greater extent than grants, which were the foundation of many of the enterprise network's activities? I am interested in knowing how we can best use the money, which will be much tighter in future. Can you give any idea of the percentage of moneys that you disburse in that respect? If you offer loans, it is obvious that we will be able to use the money from them in future as they are repaid.

**Sandy Brady:** We assist businesses predominantly through a mixture of grants, loans and equity, although we offer loans less often than we did 20 years ago. That is to do with interest rates. At that time, we could offer rates that were slightly below bank rates, but that was when rates were in the mid-teens, when it was clearly advantageous for developers to come to HIE for loan finance. The use of loans dropped to a low level five to 10 years ago, as interest rates fell. We are now actively looking at increasing the use of loans. We have always used equity fairly selectively, but we will look at using that, too. You are correct that grant is money that is given out and does not come back, but it generates benefits, which is what we are pursuing.

**Crawford Gillies:** Currently, we do very little by way of loans. We do more by way of equity investment through the various co-investment funds that exist.

**Ms Alexander:** I preface my remarks by saying to Scottish Enterprise that it has done extremely useful work over the past six months to provide us with some of the data that we had been looking for.

The Government's economic strategy says in its first paragraph:

"sustainable economic growth is the one central Purpose to which all else in government is directed and contributes."

It goes on to define that goal by saying:

"Our immediate growth target is to raise Scotland's GDP growth rate to the UK level by 2011."

My first question to Crawford Gillies, as the chair of Scottish Enterprise, is whether he and the board are convinced that we are on track to deliver that objective of the operating plan nine months hence.

**Crawford Gillies:** Our focus is to maximise the impact that we can have on economic growth. At this stage, as we come out of recession—I understand that new numbers have been published this morning—it is extremely difficult to say, frankly, what the trajectory will be over the next year. There are definite signs of recovery, but

the recovery is somewhat fragile, so it is difficult to say whether we are on track at this point.

**Ms Alexander:** A helpful feature of the data that you have provided to the committee is that they demonstrate that, in the three financial years since the Scottish Government set out its one central purpose of sustainable economic growth and since its commitment to sustainable growth as the number 1 target for next year, on a like-for-like basis, HIE's budget has been cut in real terms by 30 per cent and Scottish Enterprise's budget has been cut by 14 per cent. We are moving into a more difficult environment, so has the board set a bottom line for the budget that will be required for next year? Has it set a policy objective that will be required to give us the best chance of meeting that target, which is to raise the gross domestic product growth rate to the UK level by 2011? If there is a policy change or budget bottom line in respect of future cuts, it would be helpful if you would share them with the committee.

**Crawford Gillies:** No bottom line has been set by the board or shared with the Government. On the budget, we have three jobs. The first is to make as robust a case as possible for the resources that we think that we can put to good use. Having done that, the second is to take the resources and maximise our impact. The third job is to remain opportunistic. One characteristic of an economic development organisation such as ours is that we cannot always at the beginning of the year plan exactly where the resources will go, because new opportunities will arise. We have all three of those roles and we try to fulfil all three.

**Ms Alexander:** I want to pursue the policy changes that might be helpful in trying to meet the target of matching UK growth next year. The second paragraph of the Government's economic strategy reads:

"This Government Economic Strategy sets out how we will achieve such success through an entirely fresh approach."

I have to confess that, as I read the Scottish Enterprise business plan that is to be published tomorrow, I was genuinely struggling to establish the "entirely fresh approach". I will not invite you to comment on whether that was simply overheated rhetoric. At a more practical level, I struggled to identify the ways in which you as the new chair, the board and a new chief executive have measurably changed direction in the past three years since that commitment to "an entirely fresh approach" was given. Can you give us a sense of how the organisation's strategic direction is shifting to accommodate circumstances?

**Crawford Gillies:** I cannot comment on what happened three or four years ago, but I can comment on what is happening today and on the changes in the past 12 months. A really important



change relates to collaboration. It is not appropriate for us or anyone else to consider the investment in the enterprise agencies to be the only investment in economic development. I have seen significant improvement and change in collaboration in the past 12 months, not only with the strategic forum partners—HIE, the funding council, Skills Development Scotland and VisitScotland—but with other Government agencies. However, I do not think that we have gone as far as we can. There is further to go and greater impact will be achieved for the public purse as we enhance that collaboration. That is a tangible change.

**Ms Alexander:** My final question is on the crowded landscape of the Scottish Enterprise board and chairman, the international advisory board and the Council of Economic Advisers. In that context, can we expect you and your board or the international advisory board to have anything to say on the wider issues of economic development, or will you limit your public pronouncements exclusively to the areas for which you have operational responsibility? For example, I am thinking about what you or the board believe might be helpful on skills, planning, transport or other issues from the vast array of policy areas that impact on economic development in Scotland.

I am pushing you to define for us whether you think that you have a strategic role or an operational role. There is genuinely some confusion about the appropriateness of the Scottish Enterprise board, chairman and international advisory board having a view on areas of economic development that go beyond those of your own narrow remit but which are critical to delivering the objective of matching the UK's GDP level by nine months hence. What is a fair expectation for the public policy community and the Parliament to have of you, the board and the international advisory board?

**Crawford Gillies:** I would make a distinction between the role and how it is delivered, if I can put it that way. I think that Scottish Enterprise and our board have a strategic role. To be frank, if our board and I can see opportunities that may not fall within a narrow definition of our remit, I think that we have an obligation to raise them. I do not think that we should necessarily raise those opportunities publicly, because it is not the role of a Government agency to stand up publicly and criticise the Government. That is not to say that we should not have such discussions behind closed doors.

**Ms Alexander:** That is helpful, although your position is in contradistinction to, for example, that of the Council of Economic Advisers, which publishes an annual review across the whole gamut of activities while remaining a Government

agency. It sees its role as one of saying publicly what it thinks requires to be done; you are articulating a position in which you say only privately what you think requires to be done.

**Crawford Gillies:** There is a fundamental difference between Scottish Enterprise and the Council of Economic Advisers. As I understand it, the council was set up to put forward its views in a public forum, giving an annual report of those views. It is independent of Government in a way that Scottish Enterprise is not and never has been.

**Marilyn Livingstone:** My questions are for Scottish Enterprise. I was pleased to hear Crawford Gillies talk about the need to remain opportunistic, but how does that fit in with supporting only the six key sectors? How do you support other businesses that show entrepreneurial activity? How does your support policy fit in with opportunity?

**Crawford Gillies:** I am glad that you have raised that point, because there is some confusion about it, for which we have to take responsibility.

Scottish Enterprise has always been and will continue to be opportunity driven. The reality is that, if we have identified seven sectors in which Scotland has particular competitive advantage, the majority of the opportunities will be in those sectors. However, we are in no way limited to finding, addressing and working with opportunities just from those sectors.

**Marilyn Livingstone:** The reality on the ground is that the companies that have access to the support are the account-managed companies. How do you square that circle?

**Crawford Gillies:** Again, that question brings us back to something that we need to do a better job of communicating. Historically, there has been talk of Scottish Enterprise working with 2,000 companies. Yes, we work most intensively with 2,000 companies, but the statistics over the past 12 months show that we have had one-on-one interaction with—and have therefore supported in one form or another—6,000 to 7,000 companies across Scotland.

It is wholly appropriate that we do not give all 6,000 or 7,000 the same level of support. We have a segmentation approach in which 2,000 companies receive more support than the 5,000 below them. Indeed, even within the 2,000, the support is not homogeneous, and some companies—those that have the potential to have the biggest impact on the economy—receive even more support. We need to communicate that segmented approach more clearly than we have done in the past.

**Marilyn Livingstone:** Could that information be made public? It would be interesting for us as a

committee to see it, because what you have described is not the picture as it has been painted to us.

**Crawford Gillies:** There is some information that we can provide you now—the number of companies that we are working with in different ways, for example through smart exporter and other initiatives, and the back-up to the 6,000 or 7,000 that I mentioned. We are not yet ready to describe the overall segmented approach in detail, but we would be happy to do that in six to 12 months' time. It is work in process.

12:30

**Julian Taylor:** One thing I can share with you now is the fact that between 70 and 80 per cent of our account-managed companies are in the key sectors and 20 to 30 per cent are not. There is an open access, depending on the growth potential of the company. It is absolutely not an exclusive approach.

**Marilyn Livingstone:** I want to ask about regional support since the demise of the local enterprise agencies. You have talked about collaboration. I represent a Fife constituency and I am concerned because, in Fife, there was a lot of collaboration with the local enterprise agency but that has now gone. How are regions such as Fife being supported now?

**Crawford Gillies:** That is really important. Scottish Enterprise delivers on local, regional and national bases. All are important and we need to continue to do that. Nevertheless, I hear the view from some quarters—I am not suggesting that you are putting it forward—that the choice is between a large, monolithic, centralised organisation and one that is decentralised, local and responsive. It is possible to have one organisation operating across Scotland that brings the best resources to bear region by region so that, for example, the Fife operation is not limited to the people in the Glenrothes office. If the right people to work on the Fife energy park are in Glasgow, Aberdeen or Edinburgh, we should bring them to that opportunity, and that is what we do. Our organisational model attempts to secure the benefit of our being one organisation across Scotland, which is able to transfer the best resources and best practices, while, at the same time, recognising that a lot of economic development is delivered on a local basis.

**Marilyn Livingstone:** I commend Linda McPherson. She provides a lot of excellent support, but she does so now with a limited resource. There are no longer the same bodies to collaborate on projects on the ground. A lot of local expertise was lost with the demise of the local enterprise companies, and I do not think that

that ground has been made up. That is a comment rather than a question, but I genuinely think that that is a concern of MSPs across the piece. Do you want to comment on that?

**Crawford Gillies:** I will, because you have raised the matter before and we take it seriously. After the previous committee meeting that Lena Wilson and I attended, we went back to Fife and talked with the Fife Partnership and its executive group. Frankly, the feedback was that we were properly and appropriately engaged. If anything is missing, please come forward and let us know. We really do want to be involved at the local level, as we were historically. We have no intention of pulling back from that.

**Julian Taylor:** There are some excellent examples of partnership working. One of the best examples, ironically, is the Fife energy park. We systematically assess the relationships that we have with every key partner—in particular, local authority partners—and ask them directly about our current relationships. We build an assessment and, if there are any challenges, we ensure that they are tackled at the highest level.

**Marilyn Livingstone:** My final question is on the influence that Scottish Enterprise has. It goes back to what Wendy Alexander asked you, in that it is about how you work with other agencies. I chair the cross-party group in the Scottish Parliament on construction. The construction industry has been having a difficult time, with apprentices losing their jobs and key skills moving out. What is Scottish Enterprise's role and what discussions has it had, or is it having, with all the different agencies that are helping to support the construction industry through a difficult time?

**Crawford Gillies:** We are actively involved with the construction industry. I forget the name of the construction industry advisory board, but I met it two months back and it told me that the level of engagement and support from Scottish Enterprise for the construction industry is significantly better than it was a few years back. That support is provided on issues such as innovation—a big issue in the construction industry—leadership and working closely with Skills Development Scotland on the skills agenda, which is also crucial in the construction sector.

**Marilyn Livingstone:** Has the skills sector had the support that it needs since the split? My concern, for example, is that we have lost 67 apprentices in the last year in Fife, all in the key sectors. We hope to build a new road bridge, but representatives of the construction industry tell me that we are losing skills from the sector that are irreplaceable and that we will face skill shortages. I am interested to learn what dialogue there is. You say that you have strategic involvement. What influence do you have over those other agencies

in helping to develop the skills that we need for the future?

**Crawford Gillies:** Ours is not a strategic role on behalf of all agencies. It is important that the construction industry advisory group has a direct relationship and works with Skills Development Scotland itself. That does not occur through Scottish Enterprise.

**Marilyn Livingstone:** I am not suggesting that, but surely Scottish Enterprise, as the development agency, must have an input on what skills we need for the future. I am using the construction industry as an example. Since the split, what influence do you have over what skills Scotland has for the future?

**Julian Taylor:** One example is the support that we have provided in establishing Scotland Food and Drink, an industry body for the food and drink industry. We have great collaboration with SDS as part of that overall body and, as a result, a skills action plan or strategy is being developed for food and drink. That model of collaboration is replicated across many of the industry leadership groups: the industry defines a clear strategy and the partners join up to provide the appropriate level of response. The skills response in food and drink will be completely different from the skills response in life science, for example. SDS is represented through the leadership group and, in particular, through a sub-group in all the key sectors.

**Rob Gibson:** How has Highlands and Islands Enterprise addressed the issue?

**Sandy Brady:** We are part and parcel of each of the sectoral working groups in Scotland and we play a prominent part, along with Scottish Enterprise and Skills Development Scotland. An example is the renewable energy work that is going on. The renewables sector is of huge importance to the Highlands and Islands and it will be of even more importance in the future, so we are working to ensure that all aspects of developing the sector are taken forward. That includes the physical infrastructure, the growth of the supply chain, businesses and, crucially, the skills sector, because a skills shortage is one of the shortages that we could face.

**Rob Gibson:** On the skills sector, is the educational establishment in the Highlands able to meet that demand?

**Sandy Brady:** The university of the Highlands and Islands sees renewable energy as one of its focuses going forward and we are working to build its capacity. Equally, other universities are represented in the Highlands and Islands and a number of those—Heriot-Watt University, for example—are actively involved in the development of the renewables sector.

**Gavin Brown:** I will examine some of the budgetary aspects for Scottish Enterprise, in particular the figures in appendix 1 on page 9 of Scottish Enterprise's submission. One item of income that has been touched on is property disposals, for which there is a figure of £20 million for this year, for next year and for the year after. In the longer term, property disposals will cease to be an option because the bulk of what it is feasible to sell will have been sold. At what point will property disposals cease to appear in the income statement?

**Douglas Colquhoun:** It is balanced, because we continue to make strategic acquisitions of sites, so there will be a flow of sites that we can sell in later years. At the moment, we think that we have a saleable stock worth around £100 million. That is constantly being refreshed, so it will certainly be several years before property disposals will cease to be included.

**Gavin Brown:** From previous evidence, I had the sense that property acquisition was one of the things that Scottish Enterprise would probably do less of. Roughly what level of property acquisitions do you make annually?

**Douglas Colquhoun:** It is situational and opportunistic, so it is difficult to put a ball-park figure in play. For example, we are acquiring some additional land at the BioQuarter to enable the expansion of that site. That is quite a sizeable acquisition and would distort the figure. It is roughly £10 million per annum.

**Gavin Brown:** The line underneath that—property income—runs at £8 million a year. If, over those three years, you have got rid of £60 million-worth of property, will the property income figure remain the same? Ordinarily, I would expect it to drop.

**Douglas Colquhoun:** There are two sources for that. There is an operational aspect. As part of the efficiency agenda, we increasingly co-locate in our own offices with other organisations and an income stream comes from that to Scottish Enterprise. At the moment, we think that the income is a reasonable assumption but, as ever, it and the expenditure are continually monitored and we are always refining our forecasts for them.

**Gavin Brown:** The line underneath property income—the co-investment fund—is worth £16.7 million a year. My understanding is that that is one of the funds that will go into the proposed Scottish Investment Bank. What would happen to that figure should the fund cease to exist in its current format? Is the Scottish Investment Bank actually happening and, if so, when? What is the latest position on that?

**Crawford Gillies:** It is difficult for me to comment because, as I understand it, the First

Minister will make an announcement later today on that topic. Therefore, I cannot say much, but I can say that the setting up of the Scottish Investment Bank as currently envisaged would not have a material impact on the co-investment fund's operation.

**Gavin Brown:** Today is perhaps apposite for the announcement: I think that it is the first anniversary of the announcement of the Scottish Investment Bank, so I look forward to hearing what is in today's announcement.

**Christopher Harvie:** Scottish Enterprise places great emphasis on the renewables industry. Over the past couple of days, we saw the figure of it generating 60,000 jobs, which means requiring the skills of 60,000 trained technicians in a country that produces roughly 2,000 mechanics and electromechanics every year. We have, proportionate to population, one fifth of the output of trained technicians of Baden-Württemberg. What arrangements can be made for acquiring that manpower?

I ask that in the context of the present Government in London committing £5 billion to the building of two giant aircraft carriers at Rosyth. The notion of producing adequate trained manpower for the complex business of bringing to fruition all sorts of new developments in marine technology in particular has a certain incompatibility with devoting such sums to defence technology.

**Crawford Gillies:** Frankly, I think that Skills Development Scotland could provide a better answer to that question. As Julian Taylor mentioned, Skills Development Scotland is integrally involved in the industry groups, including the groups on renewables, defence and marine.

12:45

**Christopher Harvie:** The contrast between the £5 billion that is being spent on those two items of defence expenditure and the sums that we have discussed so far about long-term investment in the SE and HIE areas seems quite remarkable.

Secondly, as we will hear in this afternoon's chamber debate, the transmission charges for renewable forms of energy are determined not so much by the Office of Gas and Electricity Markets, despite what it might like to think, but by a large private concern with huge American interests that is called National Grid, which is a long way from being the common provider of infrastructure that the state created in the 1920s. Can we have security for long-term planning given that type of horse trading, which is very much oriented towards the interests of the south-east of England? The arrangements have drawn criticism

from practically every business organisation in Scotland.

**Crawford Gillies:** As I said, I hear you. I am not sure what I can add to your comment, but I understand the point.

**Christopher Harvie:** Those are two rather huge imponderables being placed in our way over the next five years. I rest my case.

**Stuart McMillan:** Tourism is highlighted as a key area both in the submissions and in the Government's economic strategy. Highlands and Islands Enterprise's operating plan refers to marine tourism, but I see no such reference—perhaps I have missed it—in the Scottish Enterprise submission. How important will marine tourism be for the future? How much support will Scottish Enterprise and HIE commit to trying to increase the income from marine tourism?

**Sandy Brady:** Marine tourism is already an important part of the product that the Highlands and Islands offers. Over some time now, investment has been put into that sector to provide the necessary infrastructure, such as pontoons and moorings, so that we can derive economic benefits. That work continues. At the moment, we are investing money in an Interreg programme, along with bodies in the Republic of Ireland and Northern Ireland, to open up further opportunities for marine tourism across the Irish channel. We have seen considerable interest around the coast—I mean that literally—from Shetland to Argyll and volumes are building steadily, so the question is whether we can tap into that.

Another thing that is generating interest in port and harbour infrastructure in the Highlands and Islands is the burgeoning cruise-ship market. Not all cruise ships are giant vessels that require huge amounts of assistance; smaller vessels also cruise around Highlands and Islands waters and they are another important element in exploiting our natural advantages. For us, marine tourism is a growth sector that we will continue to try to stimulate.

**Julian Taylor:** Scottish Enterprise's tourism strategy has two clear elements: destinations and products. We have been investigating products that have the greatest effect on the economy—by "products", I mean things such as golf, mountain biking and other such experiential holidays—and we are still in the process of doing that. Marine tourism looks like it could have potential, but that needs to be weighed against other areas in which we could make significant investment. As Crawford Gillies said on return on investment, if we feel that Scottish Enterprise input could lever additional advantage for the economy, we will pursue it. To be blunt, if it cannot do that, we cannot make the case for investment.

**Stuart McMillan:** I know that Scottish Enterprise and HIE worked together on a report on marine tourism aspects that was put into the public domain about two weeks ago. Although the report has not yet been widely circulated, I certainly think that the work on that report has been excellent. It provides a clearer picture of where we are with marine tourism, and it highlights the potential across the country. I commend your organisations for that, but there is so much more potential there. Marine tourism is not just about sailing or boating; it includes a range of other activities, such as canoeing, kayaking, diving and so on. You will be hearing from me in due course. I just wanted to flag up the point that we are not talking just about boating and sailing.

**Crawford Gillies:** We would be happy to follow that up with you directly.

**Lewis Macdonald:** As we have heard, all three agencies have taken significant budget cuts in real terms during the past three years while others have not. Your projections for the next three years are for flatlining, or even for modest increases, while other public sector agencies expect to face cuts. Have you had Government reassurances that lead you to those optimistic expectations?

**Crawford Gillies:** I do not think that anyone is in a position to give any assurances at the present time, and our plan is based on that for a number of reasons. The first is Government guidance—that is how the Government wants things to be done at this stage. Secondly, any other number would be pure guesswork at the present time. Thirdly, there is a danger that any other number could become a self-fulfilling prophecy or, which would be worse, it could be the starting point for any future discussions and negotiations. Although we do not necessarily expect flatlining to be the outcome, it is the best way of communicating the plan at this stage.

**Sandy Brady:** HIE's plan has been prepared on that same basis.

**David Smith:** Similarly, SDI is heavily dependent on the board of Scottish Enterprise for the bulk of our budget, so Crawford Gillies's comments are relevant to that.

**Lewis Macdonald:** I presume that your schedules contain contingency plans for what your agencies might do in other circumstances.

**Crawford Gillies:** We have had and are having discussions about what we would do if our budgets are cut. There are no specific plans to be taken off the shelf. We do not have scenario plans A, B or C, but we most definitely do have discussions and thoughts about what we would do in different situations.

**Sandy Brady:** We have had the same discussions, and they have focused on three broad areas. The first is the balance of our area policy within the Highlands and Islands. Second are the key sectors that are particularly important to us, such as renewable energy and life sciences and third is the balance between regular assistance to businesses and social enterprises and the portfolio of transformational projects that tend to be significant for the region but have a heavy hit on a budget.

**Lewis Macdonald:** That is very helpful. Thank you.

**The Convener:** The latest version of the Government's economic recovery plan emphasises the international aspect of getting out of recession, but the budget for SDI is flatlining year on year, looking back as well as looking forward, potentially. If we are looking at international issues as a key way of getting out of recession, is that the most effective way? Should we be considering investing more in international operations?

**David Smith:** In the context of reducing SE and HIE budgets overall, we have been holding flat our support for internationalisation, particularly for SDI's sales and marketing activities. We have been increasingly working in a more integrated fashion with Scottish Enterprise, Highlands and Islands Enterprise and other partners and stakeholders to leverage more of our resources towards internationalisation efforts.

Internationalisation features even more heavily in the plans of Scottish Enterprise and Highlands and Islands Enterprise, as well as in those of some of the other partners and stakeholders. Our approach has been to raise awareness of the importance of internationalisation going forward, and to leverage in even more support from partner and stakeholder organisations.

**Crawford Gillies:** I refer you to the three-year period in the SDI financial summary on page 6 of our submission. In spite of the fact that the overall budget is being held flat, at this stage, the SDI indicative allocation is up by almost 10 per cent.

**The Convener:** I have one specific question that relates to previous budgets, to an extent. This year a sum was moved from support for the expo in Shanghai to support for more Scotland houses. Was the money spent? Were any Scotland houses established as a result?

**David Smith:** SDI carried out research to evaluate the current pilot models for Scotland houses and looked at competitor best practice. Based on current options, we thought that there would be no immediate value in generating additional overseas presence of that sort. SDI will look to leverage more from our existing overseas

presence to extend our networks, especially in recognition of the challenging outlook for public sector finances.

**The Convener:** My final question is about how you evaluate success, which you discussed earlier. I presume that we are not allowed to talk in detail about the draft business plan, but on page 34 you state in big letters:

“every £1 we spend in 2010/11 ... will generate an additional £8.80 in economic impact for Scotland”.

If we drill down into that, it is a cumulative £8.80 over a 10-year period, so it amounts to an average of 88p a year. How do you establish that you will achieve that cumulative net value over the period? I accept that the average of 88p a year for every pound spent is additional, but is the target good enough? Should not we try to achieve more than 88p for every pound spent?

**Julian Taylor:** It is not 88p. For every £1 that we spend, we will get 88p every year, so it is cumulative. On that basis, we genuinely believe that it represents good value. We try hard to benchmark ourselves against peer organisations throughout the world. It is difficult to do that, because of the challenges of getting a robust methodology. Where we can get a comparison, we perform well.

**The Convener:** Have you carried out a backward analysis and looked at what we have generated from investment that we have made in previous years, to see whether the figures stack up?

**Julian Taylor:** Absolutely.

**The Convener:** Will you share that with us at some point?

**Julian Taylor:** Yes—we publish all of our evaluation activities. We are committed to ensuring that we are open. The more we share, the better we can learn; that is part of improving the methodology. We would be delighted to provide the information that you seek.

**Crawford Gillies:** Very few organisations in any walk of life deliver an annual 88 per cent return. Could it be higher? I am sure that it could. We would like it to be higher, but it is already significant.

**The Convener:** What about Highlands and Islands Enterprise?

**Alastair Nicolson:** For Highlands and Islands Enterprise, success is seeing progress in every part of the Highlands and Islands. We want a growing population, higher wages, increased productivity in businesses and increased participation in the labour market. We can monitor such statistics on a periodic basis to assess how

the region is doing and to quantify our contribution to that.

**The Convener:** That concludes questions. I thank Crawford Gillies, David Smith, Sandy Brady and their respective teams for coming along this morning, which is now this afternoon.

*Meeting closed at 12:58.*

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