The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 1 December 2010

Session 3

Printed and published in Scotland on behalf of the Scottish Parliamentary Corporate Body by RR Donnelley.

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ECONOMY, ENERGY AND TOURISM COMMITTEE
33rd 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, Ettrick and Lauderdale) (LD)
David Whitton (Strathkelvin and Bearsden) (Lab)

*attended

THE FOLLOWING GAVE EVIDENCE:

Dr Mike Cantlay (VisitScotland)
Forbes Duthie (Highlands and Islands Enterprise)
Crawford Gillies (Scottish Enterprise)
Ken Neilson (VisitScotland)
Alex Paterson (Highlands and Islands Enterprise)
William Roe (Highlands and Islands Enterprise)
Malcolm Roughead (VisitScotland)
Iain Scott (Scottish Enterprise)
Julian Taylor (Scottish Enterprise)

CLERK TO THE COMMITTEE

Stephen Imrie

LOCATION

Committee Room 3

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 1 December 2010

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

Draft Budget Scrutiny 2011-12

The Convener (Iain Smith): Welcome to the Economy, Energy and Tourism Committee's 33rd meeting in 2010. I thank everyone for making the effort to get here this morning and I apologise to witnesses for the late change to arrangements. Because of the weather, we thought that an extra half hour would help everyone to get here. Unfortunately, two members cannot make it—Marilyn Livingstone and Chris Harvie are stuck in the snow in different parts of the country. Lewis Macdonald is on his way, but he is finding it difficult to get here. I hope that he will be here in the next half hour or so.

Our first panel of witnesses as part of our budget inquiry is from Scottish Enterprise. Unfortunately, Lena Wilson was stuck on a runway in London last night and has not been able to make it, so we have a late substitute, who is Julian Taylor, the director of strategy and economics at Scottish Enterprise. I ask Crawford Gillies to introduce his team and to make any opening remarks, after which the committee will ask questions.

Crawford Gillies (Scottish Enterprise): Good morning, convener, committee members and clerks. We are pleased to be with the committee this morning to discuss our budget proposals. As the convener said, Lena Wilson is not able to join us. I pass on her apologies for that. I am joined by Iain Scott, our director of finance, and Julian Taylor, our director of strategy and economics.

We tried to provide the committee with comprehensive information on our budget proposals. I trust that that helped the committee's considerations in advance of this meeting. Obviously, we are happy to discuss any matters arising from that. We are here to help the committee to understand what we intend to do with our budget. Unsurprisingly, the budget brings many challenges. At the top level, there has been an overall reduction of £21 million or 10 per cent in the grant in aid that we receive from the Scottish Government. Taking into account reductions in other income sources, we will have a budget of £267 million for 2011-12, which is approximately 12 per cent less than what we will spend in the current year.

The reduction brings many challenges. We have had to make difficult choices. In some respects, the situation might best be summed up by saying that we are at the stage of prioritising the priorities. The board, along with Lena Wilson's management team, have undertaken a rigorous evidence-based prioritisation exercise to inform our decisions. We have taken a forensic look at our return on investment and focused our activities on the opportunities that offer the greatest return from public sector investment.

Having done that, our number 1 priority for the next 12 months will be renewables. For example, the national renewables infrastructure fund will position Scotland as a global leader in offshore wind. It is a fast-moving opportunity with competition at a global level, so we need to act now to secure investment and take full advantage of the opportunity. However, renewables are not just about offshore wind; they are about developing our capabilities in marine and tidal energy, clean technologies and carbon capture and storage.

Our approach is not just about NRIF. Over the year, we propose to make significant investment in projects such as the international technology and renewable energy zone—ITREZ—in Glasgow and the power networks demonstration centre. We will work hard to develop supply chains throughout the emerging sector and to attract inward investment and international manufacturers while ensuring that innovative young Scottish companies that operate across the areas can access our research and development and regional selective assistance grants as well as our investment funds to ensure that they capitalise on the potential.

As well as focusing on long-term opportunities such as renewables, we will prioritise the areas of company support that bring the greatest returns. Those are our front-line account management services and our support for international trade, innovation and investment funds. Those are the types of support for which there is the biggest demand and which we believe can have the biggest impact.

"Where will you do less?" is a question that I anticipate will be on your minds. As is true of other areas of the public sector, we are having to make difficult choices. Let me highlight three areas where we will do less. First, we will decrease our spend on intellectual asset development by around 23 per cent or £17 million. Instead, we will focus on those opportunities that are closest to market. Secondly, we will reduce our investment in business infrastructure projects by around 23 per cent or £18 million. That reflects the fact that two of our biggest national projects—the Edinburgh BioQuarter and the Scottish exhibition and conference centre national arena—are nearing completion. Finally, we are looking at how to make our money work harder and how to make savings in how we run our business—we want to reduce expenditure on that by 19 per cent or £10 million.

In summary, we have had to make some difficult choices to put together a budget proposal that is within the bounds of the settlement but which still offers significant impact. Had we been offered a greater settlement, we could have found more valuable ways to spend the money, but our view is that we must be realistic. We have put forward a balanced budget proposal that we believe is focused on the right things.

The Convener: Thank you for those opening remarks.

I will start the questioning by exploring in a bit more detail the £70 million national renewables infrastructure fund, which the Government announced with great fanfare a few weeks ago. According to the budget that was published a few weeks ago, the fund is to receive £17 million in the next financial year, but your business plan includes a figure of £8.5 million. Those figures do not seem to match the fanfare. Will you explain where that money—the £17 million or the £8.5 million—is coming from? Has the Government given Scottish Enterprise any additional resources to fund it, or is it coming from other parts of your operation?

Crawford Gillies: It is coming from within our overall settlement, but the cost will be spread out over the next four years.

I will address the difference in the numbers. The £70 million, which was approved by the Scottish Enterprise board at our meeting on 29 October, will be spread over four years. The numbers are £17 million, £24 million, £19 million and £10 million. The reality is that with a fund of such a nature, it is difficult to predict in advance exactly how the flows will occur over the four-year period, because it depends on the proposals that we receive.

We believe that in the first year there is a potential range of between £5 million and £20 million. We have approved £17 million up until now. The current business plan estimate is £8.5 million. Should the demand come towards the top end of the range—£17 million to £20 million—we will find ways of meeting it from other resources through in-year resource management processes, which we find that we have to adopt every year.

The Convener: I want to work out where that expenditure fits into your budget. Which budget line on page 4 of your submission includes funding for the national renewables infrastructure fund? How much of the £17 million/£8.5 million is included in that budget line?

Crawford Gillies: I will ask Iain Scott to address that.

Iain Scott (Scottish Enterprise): I can confirm that the funding for the NRIF project comes under the business infrastructure projects line, which is the first line in the globally competitive business environment section. The £8.5 million is contained in the figure of £60.2 million. We needed to put in a single figure to get the budget to balance. As Crawford Gillies said, that project is in its very early stages. I think that expressions of interest are due in by 10 December, when we will have a better idea of the scale of the proposals.

There is quite a lot of work to be done in the first year on the design and planning of the projects. As Crawford Gillies said, the figure could be anywhere between £5 million and £20 million, depending on the quality of the proposals. At the moment, we have included £8.5 million in that line. If better-quality proposals come in, we will be able to manage the funds in year to accommodate that.

The Convener: Just for the record, and perhaps for clarity, the budget that you have presented to the committee includes £8.5 million for the fund and not the £17 million that is referred to in the Government's budget document.

Crawford Gillies: That is correct, but we are confident that, should the quality demand be anything up to £20 million, we will find the resources in year to meet that demand.

The Convener: If you are required to find additional resources in year, which budget lines will you be able to find them from? Which are the most prone to having to provide that money?

Crawford Gillies: I will ask Iain Scott to describe the in-year management process, but first I will mention one of the characteristics of our budget. Someone once described our budgeting as trying to land a jumbo jet on an aircraft carrier, and frankly it is like that at the end of the year. Iain Scott and his staff, to their credit, manage to find ways to balance the books at the end of each year, either through the expenditure line or the income line. In the latter case, it is often done through property disposals.

Iain Scott: I will add a couple of words on that. The line that is most prone to fluctuation in any one year is the line that we are discussing—the business infrastructure projects line. As you can imagine, it includes some very big projects, and there can be slippage in many of them—we see that from year to year. That line is the most prone to fluctuation, although there can be changes in some of the other lines as well. We manage that by sitting down each month as a sub-group of the executive management team and looking at the latest forecast. We can manage the expenditure at any time during the year. On top of that, we can raise some £70 million to £80 million of additional income every year, a good proportion of it through property disposals, and we tend to use that towards the end of the year to manage the overall balancing of the budget.

The Convener: So you anticipate that you will be able to manage it through a budget line that is forecast to be £78.3 million for the current year and which is £60.2 million in the draft budget. That is a reduction of £18.1 million, and you are already taking out £8.5 million for the new fund. Essentially, you are going to try to manage any additional expenditure on top of the £8.5 million from a budget that is already being reduced by about a quarter. Is that realistic?

Iain Scott: I think it is. As Crawford Gillies said in his opening remarks, one reason for the reduction is that a couple of the larger projects are coming towards their completion. Last year, about £20 million was included for the Edinburgh BioQuarter. We will not be spending anywhere near that on the project this year, so that is part of the reduction in that line.

Crawford Gillies: The other line that I draw your attention to is on the income side. The budget forecasts income of £29.6 million from property disposals. Simply by moving property disposals from March to April or April to March in any year, we gain some flexibility to balance the books at the end of the year.

The Convener: Provided that you can actually dispose of the properties.

I will ask a final question on the subject before I ask Rob Gibson to come in. Was any of the £8.5 million that you have earmarked already in the budget for projects that will qualify to be funded under the heading of the national renewables infrastructure fund? Is any of the money in the £8.5 million transferred from other budget headings?

Crawford Gillies: I do not believe so. I am looking at my colleagues to see if—

Iain Scott: They are certainly all new expenditure projects. This time last year, we anticipated that we might have to spend about £6 million on port development activity, but that was last year.

The Convener: I am just trying to get an indication of whether there are any existing funding commitments or likely future liabilities for the type of development that the fund will fund. You said that you anticipated spending, perhaps, £6 million.

Iain Scott: We expected that we would have to spend in the region of £6 million, but there are absolutely no commitments on that at the moment.

The Convener: I appreciate that there is no commitment; I am just trying to get an indication of the scale of what is there and what is predicted.

10:15

Rob Gibson (Highlands and Islands) (SNP): Good morning, gentlemen. I want to ask about staffing costs. I have worked out that just under a third of your expenditure is on staffing and that the global competitive sector takes quite a bit of the high end of that. Can you expand on that for us, please?

Crawford Gillies: I will ask Julian Taylor to say a bit more about that in a second. The important point to recognise is that our staffing cost is for both the overhead staffing to run the business and staffing to deliver what Scottish Enterprise delivers. A lot of the delivery is carried out through account managers who work with companies in the field on a day-in, day-out basis. Since 2007, our overall staffing number has been reduced on a like-for-like basis, taking out activities that have moved elsewhere. That number has been reduced by approximately 20 per cent over the past three years.

Rob Gibson: Because of the changes in the structure.

Crawford Gillies: Because of changes in the structure and our continually finding ways to do things more efficiently than we had done previously.

Rob Gibson: What about other aspects of institutional activity—the kind of back-office stuff that you continue to do but that might be better done, for example, by your partners such as local government?

Crawford Gillies: We continue to look for opportunities to share back-office services. An example is the sharing of our information technology function with Skills Development Scotland. Over the next five years, that is projected to save each organisation £2 million a year and £20 million over the five-year period. We are in active discussions with a number of other organisations, including local authorities, Highlands and Islands Enterprise and others to share other aspects of our back-office services.

Rob Gibson: I am sure that other members will have questions about these things. As a Highlands and Islands member, I want to compare and contrast in a while.

Let us turn to the renewables sector. As we know, the cost of support for infrastructure to develop just the offshore wind market has been estimated at around £230 million. Both Scottish Enterprise and HIE are geared in that direction. However, even if those costs are incurred over a five-year period, the grants that you have made for initiatives such as the Dundee waterfront project and the Fife energy park are not huge in comparison with the size of the demand that there will be. Do you envisage a larger percentage of your budget being spent on renewables in the next few years than is being spent at present? Roughly, what percentage of your budget is spent on renewables development?

Crawford Gillies: It is important to recognise that we get—and expect to get—significant leverage on the investment. It is not just Scottish Enterprise going in; we are leveraging private sector finance, which should be a significant part of what happens.

Julian Taylor (Scottish Enterprise): It is leverage based on a range of factors that the market can back, such as Government commitment to renewables, the involvement of a big energy provider and commitment to the opportunity in Scotland. Those things give organisations such as the port authorities the confidence to invest, in the knowledge that they will get future returns. We are hopeful that the leverage will run into the tens and hundreds of millions of pounds of investment that we know are required.

Your second question was whether we envisage additional resources being spent on renewables over the years. We need to see that in the round. The renewables opportunity for Scotland is not just around port facilities; it is around everything from the supply chain to academic institutions. I envisage that the universities, too, will spend more on renewables opportunities and that Scottish Enterprise will spend more in terms of the companies in the supply chain as those opportunities emerge

We must also bear in mind the fact that, although renewable energy is a significant priority, the agenda is absolutely not exclusive. There are many other sectors in which there are still growth opportunities, which we can perhaps talk about.

Rob Gibson: We understand that. However, given the highly competitive marketplace for providing services to launch and develop renewables projects, do you think that Scottish Enterprise is realistically equipped to support what is happening? I have the sense that there is slight slippage in certain infrastructure, although I hope that that is not the case. What is happening in the area at the moment?

Crawford Gillies: I am not aware of any slippage. When the national renewables infrastructure fund was announced back in October, we immediately invited applications. As Iain Scott said, we expect the first round of applications to come in by 10 December. Inevitably, that will be a form of soft close; we will get further expressions of interest thereafter.

As Julian Taylor said, it is important to recognise that support for the renewables sector is not limited to the national renewables infrastructure fund—there is also the ITREZ engineering project, the power distribution centre and support for the supply chain. Scottish Development International is involved in attempts to bring in major turbine manufacturers. We are trying to make progress on a broad front through interrelated initiatives that support one another.

Rob Gibson: Given that the green investment bank will become available only in 2014, there is a serious question about our capability to get and keep competitiveness in Scotland. We will look for you to provide answers—not just now but in the near future—on whether or not we are coping.

Crawford Gillies: We are coping. However, if we had more resources—for example, if we were able to get the fossil fuel levy money—that would undoubtedly allow us to accelerate what we are doing.

Gavin Brown (Lothians) (Con): The Scottish Investment Bank is mentioned in the Government's draft budget. Where are we with that?

Crawford Gillies: Initially, the Scottish Investment Bank will comprise four funds, three of which—the co-investment fund, the venture fund and the seed fund—already exist. All of those funds are highly regarded, and other countries and regions are looking to emulate them. We will shortly add in the Scottish loan fund, which will initially be funded from a combination of £50 million of public sector money and up to £50 million of private sector funds. We are deep into the procurement process for a fund manager for the loan fund. We hope to announce an appointment within the next two months.

Gavin Brown: Presumably the co-investment fund, the venture fund and the seed fund are doing what they have always done. You say that you hope to announce the appointment of a fund manager for the Scottish loan fund within the next two months, but when will the fund start to lend?

Crawford Gillies: Within the next couple of months. We are already priming demand through account managers and others, to build up a demand pipeline. That will ensure that demand is ready when we appoint the fund manager. The fund should start to make loans shortly thereafter.

Gavin Brown: The Scottish Investment Bank was announced in April 2009 and has been re-announced on several occasions, usually with a reducing amount of money and an extended timescale. I appreciate that that did not happen on your watch, but why has it taken so long to get to this stage? Why was the bank announced in April 2009 if it was going to take the best part of two years to do anything?

Crawford Gillies: During 2009, time was taken to investigate European funds, through the joint European resources for micro to medium enterprises process. As we have discussed with the committee before, our board concluded that that was not the right route to take; because of the high overheads, it was not a good investment. We then redirected our efforts towards the loan fund. This year, things have taken longer than any of us would have liked, largely because of the procurement process that we have had to undertake to procure external fund managers to run the fund.

Gavin Brown: The income analysis section on page 4 of your submission forecasts that property disposals will amount to £33 million this year; the figure in the 2011-12 draft budget is £29.6 million. You said that property disposals help to smooth over figures and manage gaps over the course of the year, but I presume that at some point you will run out of property to sell off. How long can Scottish Enterprise continue to sell off £30 million-worth of property? How sustainable is that income line?

Crawford Gillies: We can sustain it for a considerable period, but I will let Iain Scott say more about that.

Iain Scott: Our last set of statutory accounts showed that our property assets totalled in the region of £160 million—£60 million in buildings and property and about £100 million in strategic land assets. I point out, though, that we generate additional assets every year; for example, the £20-odd million that we have put into the Edinburgh BioQuarter is available as assets and therefore can be added on to that figure. Over the past few years, there has been no significant decrease in that total; indeed, every year, we are adding on assets at the same level that we are disposing of them, and it will be many, many years before we actually run out.

Gavin Brown: So, if I understand you correctly, you are acquiring property at about the same level that you are disposing of it.

Iain Scott: That has been the history of the past few years.

Gavin Brown: Is that likely to be the case next year?

Iain Scott: Very possibly, depending on the proposals for the NRIF project. We might well be entering into joint ventures with port operators, but those, too, will be assets that we will be able to realise at some point in the future.

Gavin Brown: Again according to the income analysis, income from other business is forecast to be £17 million this year and £15.9 million next year. What are the main components of that line?

Iain Scott: It covers a variety of things, including partner contributions towards projects that we lead on and returns from the venture and co-investment funds. Indeed, with the realisations that are now coming through on the venture fund, returns in that regard will increase. The line also covers specific loans to individual companies and particular deals that we have done.

Gavin Brown: To go back to the globally competitive business section at the top of the income analysis table, I think that Mr Gillies said that Scottish Enterprise will be doing a bit less work on commercialising intellectual assets. The figures certainly back that up, but I note that you are doing a bit more on innovation and research and development support, the budget for which is going up by £3.6 million. By increasing the amount of money that you put into innovation and R and D support but reducing the amount that you put into commercialisation, are you not putting the end product at risk? We might do a bit more research and innovation, but we will have cut down on the commercialisation side when we get something that we can actually use. How do those two aspects fit together?

Crawford Gillies: I will let Julian Taylor take that question.

Julian Taylor: It is easier to envisage this as a pipeline. The early part of it, which is the stimulation of new ideas and technology, is very wide, but the chances of projects seeing the light of day in a commercial application for companies are relatively slim, and that is the part that we are going to spend less money on. We will focus more on activity much closer to market, where there is a realistic chance of projects getting value for the Scottish economy.

I also point out that the innovation and R and D support line also includes support for what is known as the WATERS fund—wave and tidal energy: research, development and demonstration support—which is for wave and tidal energy schemes, so we are also focusing on the opportunities offered by renewables.

In addition, one of the bigger challenges facing the Scottish economy is to address the current R and D deficit, and we are trying to focus resources on areas where we can help the whole economy to come up to the level of our competitors. We see relatively strong demand with regard to good R and D-type projects.

Gavin Brown: Mr Gillies, you said that there were three things that you were going to do less of, but I was so busy writing down the second that

I missed the third. I noted “intellectual asset development” and “business infrastructure projects” and wrote down “BioQuarter”. Can you tell me what the third thing was?

10:30

Crawford Gillies: The third was running the business, which is the yellow section at the bottom of table 1. It declines by £9.7 million or 17.5 per cent.

Gavin Brown: I have one last question, convener. I am sure that there will be a good explanation for this, but in the red section on page 4 of the submission, next year’s property portfolio operational costs are projected to be £7.6 million, and property income is projected to be £5 million. Therefore, on the face of it, we are spending £2.6 million more on managing the property than is coming in from the properties. Is there an explanation for that, or are there bits in that figure that I am not seeing?

Iain Scott: You have those two figures correct; they relate to each other. The main reason for the difference is the current state of the property market. There are more voids in the premises that we rent out than we would like. One thing that we have done about that this year is that we have entered into a joint venture in Aberdeen and brought in a commercial partner to help us to reconcile that issue up there. You are right to say that there is a net cost of holding those assets, although they are valuable and we can sell them off at some stage in the future.

Gavin Brown: You made a loss last year and this year, so there is a net cost. Is it your view that, over the course of time, you will end up winning? You will absorb the net cost for the next year or two, or whatever, and as you hold on to those properties for the time being, they will rise in value and wipe out the net cost. Is that the idea?

Iain Scott: Absolutely. Over the long term, those properties have increased in value, although their value has dipped substantially during the past few years. However, they should generate an increase in value that will offset their running costs.

Stuart McMillan (West of Scotland) (SNP): I have a couple of questions, one of which deals with the “Business Infrastructure Projects including Urban Regeneration Company and Local Regeneration Projects” line in the information that you have provided. When John Swinney was asked a question in the chamber about the guaranteed funding for the Riverside Inverclyde URC, his response was that money will still be going into URCs with the main focus being on Clyde Gateway. What potential impact will that budget line have on the money that is allocated to Riverside Inverclyde for next year?

Crawford Gillies: I am afraid that I cannot give you a precise answer to that at this stage. As you will recognise, the original guaranteed budget for the URCs runs out at the end of this year. We are in discussions with the Government and other partners about how much will be invested in the URCs in the future, and how it will be split between the URCs. That is one of the figures that has not yet been bottomed out in the draft budget.

Stuart McMillan: I had a couple of reasons for asking the question. First, as a West of Scotland MSP and someone who lives in Inverclyde, I know how important RI is for the area’s future.

Secondly, I was at the British Marine Federation’s annual general meeting recently; some of the people who were there have dealings with Riverside Inverclyde and some of the work that is going on. An issue was raised that is pertinent today. The committee is short of four members today. We know that two are not coming because of the weather, and one is on his way. The weather is quite awful and that could have an adverse effect on the work that is taking place, so there might well be slippage in the planned works. I am concerned about the effect that such a slippage would have on not just RI but any of the URCs, which are extremely important to regenerating local economies.

Crawford Gillies: We will have to take that into account and understand the projects and investment proposals for each URC. We also need to understand partner plans. As you are well aware, the projects are not funded solely through Scottish Enterprise—several other partners are involved.

We need to take into account the overall return that we expect from investment in URCs. That return is good, but it is not as good as returns from investment elsewhere in the economy. That is not the only factor, but it is one factor that we must take into account as we think about how to prioritise a limited budget.

Stuart McMillan: I put in a pitch for Riverside Inverclyde. Next year, the tall ships will return to Inverclyde and will go to Lerwick afterwards. I stay in the Inverclyde area. It is estimated that, in the weekend when the tall ships were there in 1999, more than 800,000 people visited Inverclyde. If Inverclyde receives at least half that number next year, that will be a massive economic boost to the area.

Crawford Gillies: Absolutely.

Stuart McMillan: I would like that to be taken into consideration in any discussions that take place.

Crawford Gillies: That is understood.

Stuart McMillan: Your submission says that some performance bonuses will stop in the current financial year and that no bonus payment will be made to the chief executive in this financial year. What is the medium-term outlook for performance bonuses? The Cabinet Secretary for Finance and Sustainable Growth has said that a pay freeze will operate throughout the public sector for the next two years. Does that affect your performance bonuses for two years?

Crawford Gillies: We will abide by Government guidelines on pay and performance bonuses. We are not spending much time on thinking about reintroducing performance bonuses in years to come. To be frank, we are thinking about much more important matters than speculation on that.

Stuart McMillan: What savings do you estimate that you will make from not paying bonuses and not giving wage increases next year?

Crawford Gillies: I do not know whether Iain Scott has that information to hand.

Iain Scott: I do not have the figure to hand, but I will supply it after the meeting.

Stuart McMillan: I have a point for clarification about Scottish Development International that was raised at last week's committee meeting. The budget document contains a budget line of £700,000 for SDI, but it is obvious that SDI spends much more than that. Does Scottish Enterprise pay SDI staff salaries?

Crawford Gillies: There are various groups of SDI staff. I appreciate that the situation is not as clear as perhaps it should be. Iain Scott will comment on who pays for different groups.

Iain Scott: SDI has about 245 staff, of whom 45 are Scottish Government employees—the Government has the budget to pay for them. Two staff are Highlands and Islands Enterprise employees. The rest are Scottish Enterprise employees and their salaries come from Scottish Enterprise's core budget.

Stuart McMillan: That clarifies it a wee bit.

My final question is on the energy budget, which has been cut by 22 per cent in real terms. How do you square that cut with the £70 million for the NRIF that we heard about this morning?

Crawford Gillies: I am not sure that I recognise that number.

Iain Scott: That is a Scottish Government budget line for energy; it is not part of the Scottish Enterprise budget.

Stuart McMillan: Okay.

Crawford Gillies: In our case, the overall spend in the energy sector is anticipated to rise by 65 per cent year on year. That is a significant increase, and it includes the NRIF.

Gavin Brown: The figures to which Stuart McMillan refers are in the Scottish Government budget, but you are right to say that they are not under the heading for the enterprise networks; there is a separate "Energy" budget heading. There are also separate headings for "Innovation and Industries" and "Industry and Technology Grants", none of which is under the Scottish Enterprise heading.

The three headings to which I have referred—which are not under your domain—have all been cut. Energy has been cut by 22 per cent, as Stuart McMillan mentioned, and the other two have been cut by 17 and 12 per cent. The Scottish Government is effectively cutting those budgets quite severely, while at the same time you have decided, having done your analysis, that it is important to put more money into renewables and energy, and to increase the amount that you put into R and D and innovation.

Did the Scottish Government discuss with you what the priorities ought to be? You are prioritising things that seem to be quite sensible and important, while the Scottish Government is centrally cutting the very same budget headings, albeit that those are outside your domain. I do not expect you to comment on what the Government is doing. However, to what extent does the Government discuss those issues with you so that the budget as a whole appears to be aligned?

Crawford Gillies: There are two types of discussion. We have on-going bilateral discussions with the Government, which are a process rather than a one-off event.

Our discussions with other agencies such as the Scottish Further and Higher Education Funding Council, VisitScotland and HIE are also important. Those include on-going discussions to ensure that our budgets are aligned for next year. We do not want to find ourselves in a situation in which we are doing something that is dependent on investment from the funding council in a particular area, and then it decides to cut that funding while we decide to go ahead. That would not make sense, and a process is under way to ensure that our various business plans are completely aligned.

Rob Gibson: In the absence of any committee members from the south of Scotland who are normally present, I will ask what you are doing about broadband pilots in the south-west of Scotland and the Borders, in comparison with what is happening in the area that HIE covers. HIE is bidding for a pilot for remoter areas—are you doing the same for the south of Scotland?

Crawford Gillies: I am not aware that we are doing anything in that regard.

Julian Taylor: We will look into that and get back to you; it is just a lack of knowledge.

Rob Gibson: That would be useful.

In account management, HIE has adopted the view that it does not matter what size a firm is if it is ambitious. What is your attitude to that, particularly with regard to firms in smaller centres?

Crawford Gillies: I am absolutely sure that HIE is doing the right thing in its area and with its remit, but we believe that we get the best return by focusing on companies that have the best growth prospects. However, while we focus our effort mostly on those companies, we do not do so exclusively. You will see from the information that we have provided—if it is not in the submission, we can certainly get it to you—that we also include in the account management process companies of national and regional importance that may, for example, be big employers in a particular area but do not have particular growth prospects.

10:45

The approach has been reinforced by research that we recently carried out into high-growth firms throughout Scotland, which highlighted the importance of that subset of the account-managed companies to the economy and to economic growth. The research also highlighted that those companies exist in all sectors of the economy, and not just—as one might anticipate—in some of the higher-growth technology sectors. That is leading to further work to consider how we identify companies that have the potential to be high-growth companies, so that we can intervene at an earlier stage.

Rob Gibson: Will that meet the needs of areas such as Dumfries and Galloway, which are projected to have a much lower population? If there were account-managed companies in smaller centres, might that begin to stabilise the population or be one element in stabilisation?

Julian Taylor: The answer to your earlier question is that the initial size of a company does not determine its growth potential. A small company with low turnover and a small number of employees could grow a lot, so we would definitely support a company of that nature if it had the ambition.

I have two further points to expand on what Crawford Gillies said. There are a range of companies that we define as important to the economy, especially those that employ a large number of people or are critical to a supply chain. We work closely with such companies. We account manage companies in rural areas. There are some great examples in the Borders, Dumfries and Galloway and other parts of rural Scotland. Companies have gone to rural Scotland for a variety of reasons and can grow and employ a lot of people in an area.

We do a range of work with companies beyond the account-managed process. In any one year, we work with in the order of 10,000 companies. For example, we work with tourism companies on a one-to-many basis, to use our jargon. We have dedicated rural programmes. Rural businesses are supported to a great extent.

The Convener: Wendy Alexander has just arrived. I will give her a moment to catch her breath before she asks any questions.

In your "Running The Business" costs, which you say you are trying to keep tight, the line for support staff costs is projecting a slight increase on the current year's forecast. A later table in your submission shows that there is actually a significant increase on the current year's budget. That was £11.8 million and you are budgeting for £12.5 million for next year. Why is it costing you more to run a smaller organisation?

Crawford Gillies: I will turn to Iain Scott in a second to address that, but I point out that, in essence, the figure is staying flat, having absorbed the pay increase that had already been put through for a full year. So there are offsetting cost reductions that bring the figure back essentially to flat year on year.

Iain Scott: The increase from the previous forecast is a result of our recent restructuring to save on our senior staff costs. One of the savings was made by reallocating responsibility for our colleagues in Scotland Europa. Half of that team now report to Julian Taylor and half report to me, so we have saved the cost of the person leading that team. Julian's and my teams are allocated under that support staff cost, so we have actually transferred people between the headings—it is not an increase in real costs.

The Convener: My question was why your support staff costs are not reducing when your budget for next year is reducing by 12 per cent and has been reducing significantly year on year for the past four years. Your support staff costs do not seem to be going down at the same rate.

Crawford Gillies: I return to the point that the underlying costs are reducing, but that is offset by the salary increases that were put through for 2010-11 at an earlier stage.

The Convener: I ask Wendy Alexander whether she has any questions. I will let you know if we have already asked them, Wendy.

Ms Wendy Alexander (Paisley North) (Lab): I was going to say that I hope you will keep me right, convener.

The Scottish Enterprise submission helpfully indicates that the board's strategic priorities are in the areas of innovation, research and development and energy projects. However, as you will be aware, in the wider energy, economy and tourism budget the "Innovation and Industries" budget is being cut by 17 per cent, the "Industry and Technology Grants" budget is being cut by 12 per cent and the "Energy" budget is being cut by 22 per cent. That seems diametrically opposed to the strategic priorities that the Government's development agency has embarked on. Have those matters been discussed with the Scottish Government, either at chairman or board level? Have you discussed how to reconcile your strategic priorities with those budgets being cut on that scale?

Crawford Gillies: We have had a discussion about that this morning—Gavin Brown asked a virtually identical question. The answer was that there has been on-going dialogue about our overall priorities, but we cannot comment on the Government's decision to impose cuts elsewhere. There has been on-going dialogue with the Government and dialogue continues with other agencies, such as the funding council, VisitScotland and so on, to ensure that our budgets are completely aligned.

The Convener: I have a slightly wider question with which to conclude. Chapter 2, "Our Economic Ambition", of the Government's budget document starts with the key message:

> "The key principles of our Economic Strategy have governed the allocation of resources in this Budget. This chapter sets out the steps taken to deliver the Budget's first strategic priority: supporting economic recovery and increasing sustainable economic growth."

As the leading enterprise agency supported by the Government, do you think that the cuts to Scottish Enterprise's budget are consistent with that statement about

> "supporting economic recovery and increasing sustainable economic growth"?

Crawford Gillies: It is not for us to comment on what the Government is doing elsewhere.

The Convener: I am asking you to comment on what is happening to you.

Crawford Gillies: I believe that we can continue to deliver a significant return on the investment that we are given. Could we do more with more budget? Absolutely; I have no doubt about that. However, there is still sufficient scale in the current budget for us to make a positive impact.

The Convener: If this committee were to make a recommendation to the Finance Committee that Scottish Enterprise's budget should be increased, what would the priorities for spending be?

Crawford Gillies: That is an interesting question. We have imagined a number of different scenarios. I invite Julian Taylor to say more.

Julian Taylor: I reflect on an earlier conversation—an absolute priority would be to spend in the renewables area as fast as the market will allow us to. We would pursue a range of other priorities, such as internationalisation. Can we really address the opportunities for what has been referred to as an export-led recovery? We would want to help more companies to export and those companies that are exporting to export further, wider and deeper. We would need to take a step back and reflect on the overall budget and distribution of resources. Rest assured that there is still ambition across the whole organisation.

The Convener: On that last point, where are we on appointing a new chief executive for Scottish Development International?

Crawford Gillies: I wrote to you just a couple of weeks ago to explain—

The Convener: That was two weeks ago.

Crawford Gillies: It was a couple of weeks ago and we continue to make progress. The process is run by the Government, albeit with our involvement as Lena Wilson is part of the panel. I hope that there will be an announcement in the near future.

Ms Alexander: Is it your view or that of the board that it was an error to try to combine the leadership of Scottish Development International with the chief operating officer of the organisation, given that we have reverted to the position of having a dedicated chief executive with sole responsibility for SDI for the first time since, I think, autumn 2007? That is a change from combining it with another internal post. Have we lost focus by combining the posts?

Crawford Gillies: I do not think that we have lost focus. I cannot comment on decisions to combine posts that were made four years ago. However, the new structure that Lena Wilson has put in place with her top team is focused, leaner and more efficient than it was before. It is absolutely right for what is required at present. The chief executive of SDI will be not only the chief executive of that organisation but part of Lena Wilson's management team and, in the future, will also work closely with the senior team at HIE.

Ms Alexander: Would it help if it ceased to be a joint venture? We have been attempting to appoint a chief executive for more than a year and the governance structure is complex as it involves three different organisations.

Crawford Gillies: I have no evidence that that would make it any easier to appoint someone.

The Convener: That concludes our questions. I thank Crawford Gillies and his team for coming.

10:56

Meeting suspended.

11:00

On resuming—

The Convener: I welcome our second panel of witnesses, who are from Highlands and Islands Enterprise. I ask Willy Roe to introduce his team and make some opening remarks.

William Roe (Highlands and Islands Enterprise): Thank you. I am very pleased to be here today and I look forward to the dialogue with you. On my left is Alex Paterson, our new chief executive, who has been in post now for four months. On my right is Forbes Duthie, our director of finance. We will all be happy to answer any questions that you like to pose to us.

The written evidence that we provided to the committee is a summary of the work that is going on as we prepare our budget and operating plan for the next two or three years. It is work in progress, and we will make further progress at our board meeting next week. Although it is not complete, we are very happy to discuss with you the ways in which we are approaching the budget exercise for this year. It goes without saying that these are challenging and unusual times for the Highlands and Islands, as they are for the whole of the country. We are committed to ensuring that our services evolve to meet our customers' needs and that our structures and operating arrangements are fit for purpose and as economical as possible to meet our big ambitions. Those ambitions include realising the potential to derive both economic and social benefits from the renewable energy opportunities that are so big in and around the Highlands and Islands, and delivering access to affordable superfast broadband eventually throughout the Highlands and Islands. We would be happy to tell you about the progress that we have made on that in recent months, which we hope to continue in the next year or two.

In these challenging times that force us to make more difficult choices, Highlands and Islands Enterprise intends to hold true to its core values, believing that we are here to address both the needs and the opportunities of the Highlands and Islands and that the requirements of our region are best satisfied through an integrated approach to both community and economic development. That is and will remain at the heart of what we do. It is the fundamental mechanism by which we find continuing success in many parts of the Highlands and Islands.

We have been sharpening up our priorities, which derive from the Government's economic strategy. Under Alex Paterson's leadership, we have done a thorough review of the priorities, of which we have four over the next few years. I am happy to unpack each of these with you if you would like me to. The first is supporting businesses and social enterprises to shape and realise their growth aspirations. Secondly, we want to strengthen communities and fragile areas. Thirdly, we want to develop the key sectors of our economy, particularly where there are unique and special regional opportunities in the Highlands and Islands. Fourthly, we want to create the conditions for a competitive economy and a low-carbon region.

The most critical challenge for us, as for other development agencies, is to make strategic choices that feel right at the time and which will feel right with hindsight about where to commit resources and how to achieve the greatest impact for the money that we invest. At a time when resources are reducing right across the public sector, as has been discussed this morning, that challenge becomes more acute. We would be happy to share with you how we are facing a situation that we have not met before, which is that, at the same time as our budget from the Scottish Government is reducing, the expectations, demands and opportunities in our economy are increasing. That combination causes difficult choices for us, but it gives us great encouragement that the patterns and trends for growth and development in the region are very strong as we come out of the recession.

Finally, we strive to strike a balance between long-term returns that will benefit our region for decades to come—we will be happy to discuss some today—and more immediate gains for businesses, social enterprises and others that are looking to expand, diversify and internationalise. We face the balance, which is critical for us, between investing in opportunities and supporting communities, sectors and geographies that still have some way to go and have lots of needs. That is why the economic and community dimensions of our work go hand in hand. Over the next few weeks, we will finalise our plans for 2011 to 2014. I hope that maintaining the balance between investing in need and investing in opportunity will remain throughout.

The Convener: Thank you for those opening remarks. I will start on the topic that I started on with Scottish Enterprise: renewables infrastructure. We had a letter from the cabinet secretary yesterday to confirm that the £70 million national renewables infrastructure fund that he announced a few weeks ago refers only to the Scottish Enterprise area and comes entirely from within Scottish Enterprise's existing budget. What is Highlands and Islands Enterprise's response to that? Do you have any funds allocated or guesstimates of what funds you might require for infrastructure developments to support renewables over the next financial year and beyond?

William Roe: I will say a few introductory words and then pass to Alex Paterson to add more detail.

The national plan for renewables manufacturing includes six sites in the Highlands and Islands, several of which have been in use previously and some of which are in use currently. Ardesier and Nigg, having been major industrial sites, are two prized sites for Scotland as a whole. Kishorn, which Alex Paterson and I visited just a few weeks ago, is currently in use and has big ambitions to expand. Machrihanish, in which we are currently investing, has been in use for some time and, we hope, has a good future. Arnish is once again showing what it can do and is in good hands. There are significant developments for us in the west, north and east of the region.

We had a special board meeting just a couple of weeks ago to take a number of decisions on investments. Those decisions needed to be made so that they could trigger European investment to support them. At our meeting, we decided to invest £5 million in Scrabster harbour, not for the manufacturing of renewables but in support of the development of the energy works in the Pentland Firth and Orkney waters. We decided to invest about £3 million to create industrial units for the harbour at Kirkwall, again to support the wave and tidal sector in Orkney. We also decided to invest £5 million in Lochboisdale port of entry because, although it is not a site for renewables manufacturing and may never be, it is an incredibly important port in the Western Isles, which requires investment to enable it to play a part in each of the area's significant industries.

Alex Paterson will answer the specific question about the renewables infrastructure plans.

Alex Paterson (Highlands and Islands Enterprise): You are right that the £70 million in the fund is Scottish Enterprise money, convener.

I have a few things to say from a HIE point of view. First, we share the priority of renewables. We think that there are huge opportunities for the Highlands and Islands in offshore wind and wave and tidal energy, in particular around the Pentland Firth but in other areas too. Therefore, one of HIE's top priorities is to ensure that we capitalise and realise the opportunities and benefits that renewable energy brings to the region.

The national renewables infrastructure plan report suggested that about £20 million may be required from public sector sources to unlock the potential of the sites in the Highlands and Islands, but we are not completely convinced that a ring-fenced fund is required. We have continued to invest in a range of renewables infrastructure in the Highlands, whether that is at the European Marine Energy Centre, Arnish or, as Willy Roe said, Scrabster, and we are in touch with all the NRIP sites in the Highlands and Islands to discuss proposals and propositions with them. We propose to work with businesses, sites and port operators in the region, as we would anyway, under the priority of renewables, but at the moment the HIE board has not decided to ring fence a specific sum.

The Convener: You have not ring fenced a specific sum but, given that Scottish Enterprise has provided indicative sums for the use of the £70 million over four years, what do you expect the profile of HIE's commitment to the fund over that period to be? Can you give an indication of how much of your budget you anticipate committing to renewables over the next three to four years?

Alex Paterson: It is important to say that our support for renewables is not just for offshore wind, which is primarily what the NRIF is for. We are involved in a wider range of activity, which includes R and D and company support, as well as infrastructure support. As I mentioned, the indicative figure in the NRIP report was about £20 million for the port infrastructure. All of that or only a proportion of it may happen, depending on the market demand that comes through. That is the sort of figure that is probably required for the Highlands and Islands sites. Some of that will definitely come from HIE. That gives you a rough indicative figure, but the total is probably more than that because, through our company support and strengthening communities functions, we invest in other aspects of renewables beyond the port infrastructure.

William Roe: As Alex Paterson said, our position is somewhat different from that of Scottish Enterprise in that, for as long as I have been the chair, we have invested in renewable energy developments every year. We put millions into biomass development in Easter Ross, where Balcas Ltd is up and running. We put millions into the Machrihanish project, which is alive and kicking and is just about to be completed. We are about to invest £3 million in Arnish, to strengthen the capability and fabric of the building there. We visited Kishorn to look at the possibilities that exist with the new company that runs that port. In addition, like others, we have invested in EMEC in Orkney, and we probably expect to continue to do so. We have already made a wide platform of investments, and we expect to make further such investments as other business opportunities arise.

Our investment in Scrabster harbour is important because it is ahead of the express demand; it is investment in a company that is confident that the business will be there. Our level of confidence is sufficient for us to invest to make that happen. It is a complex project, as many renewables projects are—they sometimes involve five or six investors coming together, which is not easy.

The Convener: I want to ask about a specific issue that is not port related but which is important for renewables infrastructure—the decision of Scottish and Southern Energy not to develop the transmission line to the Western Isles. Has HIE had any discussion with SSE about the potential economic impact of not going ahead with that?

Alex Paterson: I cannot go into great detail because the information is not in the forefront of my mind, but we could come back to you on that. We have been in correspondence with SSE on the issue, which is clearly important for the development of the sector in the Western Isles. There is a wider issue with grid connectivity in the Highlands and Islands, transmission charging and connection charging. The current set-up is a disincentive to investment in parts of the region. The issue is hugely important for us, and we are delighted that the regulator has decided to look into it. We will feed into that process.

I will be happy to provide more information on the specifics of the Western Isles situation.

Rob Gibson: Good morning, all. I am interested in the transformational projects that have been talked about. Will the Beechwood campus be completed in two or three years? How much of the commitment to that will be spent this year and in the following three years?

William Roe: I will say a word or two about the project before Alex Paterson fills in the detail on the investment and the timings.

In September 2009, our board decided to commit up to £25 million to the development of the campus. Our investment is principally to enable the 200 or so-acre site to have the infrastructure that will be necessary to allow it to become a site for academic and business development over the next 20 years. The site will undoubtedly be the most attractive site for inward investment in the Highlands and Islands, and we are pleased to have committed that investment. We are ready to go with the project, but the point at which it is triggered depends on Inverness College, which was one of the first investors in the site and is the largest investor in it. Inverness College is currently in dialogue with the Scottish funding council about its business plan for that development, and everything is ready to go. We have commissioned the design work and so on, and are ready to go when the college and the funding council are ready to proceed. That raises important timing implications. Alex Paterson will give a fuller response on that.

11:15

Alex Paterson: I will make a general comment; perhaps Forbes Duthie can then handle the phasing issue.

On the overall timescale for the campus project, the aim is for the college to be able to open its doors for the start of the autumn 2014 term. There is flexibility in the timescales and budget profile to meet that deadline. Our submission mentions transformational projects. As Willy Roe said, opportunities are growing at a time when our budget is more constrained. Given the headroom of 2014, we have taken the opportunity to reprofile the spend, but we are still committed to delivering the campus project in time for doors to be opened in 2014.

Forbes Duthie (Highlands and Islands Enterprise): On the timing, we are looking to invest £6 million in the next financial year, £12 million in the following year and the residual £7 million in the final phase to ensure that the project is completed on time.

Rob Gibson: Given that offshore renewables will increasingly come into play with sums of those sorts for particular projects, will HIE be able to cope with the situation that has been described in which there is rising demand but a somewhat falling budget? How well is the enterprise network able to support the developments in renewables that we are talking about? Is a clearer picture of other funding as well as private investment needed?

William Roe: That is the biggest issue that our board and senior management are working on this winter. I will give members the headlines of what we are doing in response to the situation and we can then dive into greater detail on individual projects or opportunities.

When Alex Paterson started as chief executive of HIE, I asked a question and then offered the first answer. The question was this: what does an ambitious and committed development agency do when it is faced with such a situation? Does it pull the blankets over its head and say, “Well, we’ve got less money, so we can do less,” and just rigorously prioritise? That is option 1. Option 2 is to get clever and think about ways in which the money can go further, ways in which greater leverage can be gained and ways in which new sources of investment can be drawn into the region. I will say a little bit about each of those things and we will then get on to renewables in particular.

We have worked stringently to try to ensure that we achieve greater leverage in every project in which we invest. In the past year or so, I have often been pleasantly surprised to discover the leverage that is possible in every part of our region. For me, the most telling leverage was in the analysis that Forbes Duthie and his colleagues did of our investments in the Outer Hebrides over the past five years. For every £1 that we have invested in the Hebrides, which is the toughest part of the Highlands and Islands, more than £7 has been provided by others. That is a testament to the possibility of achieving greater leverage and of our ability to do so. When we have less money, we have to be tougher negotiators.

Some years ago, under Alex Paterson's leadership in his previous role as director for regional competitiveness, we began to do much more that did not really involve our financial investment in companies with ambitions to grow. That has applied to renewable energy companies and other companies. For example, we have had great success and made a great impact through the relationship with the Massachusetts Institute of Technology, which started four years ago and has since been adapted, strengthened and extended. The feedback that we get from the relationship with MIT, in which many businesses participate, is exemplary, with some companies saying that it is the best thing that has ever happened to them. In passing, I note that the companies that participate in the programme typically pay four-figure sums to do so.

The third thing that we decided to do was to go hunting for investment from outside Scotland and the UK to pull into the Highlands and Islands—not into our organisation but into the businesses, the sectors and the strategic projects that are going to matter to the region. The ambition of the board and of Alex Paterson, as the chief executive, is that, over the coming years, we should be able to replace every £1 million reduction in our grant in aid from the Scottish Government with at least £1 million from sources that are beyond Scotland and which we would not otherwise have tapped into.

The early research work that we have done has revealed dozens of attractive and relevant sources of investment that we should be able to pull into the region. Our work with broadband development UK is an early win, which gives us confidence that we should go further.

That is the general picture of what we do when we are facing that situation. Alex Paterson can explain how it relates to the opportunities in the renewables sector.

Alex Paterson: We could spend all of our budget on renewables. The scale of opportunity and the call on cash over the next few years are huge in that sector. Can we provide all the necessary funds? Probably not. Various other sources must come together, and the fossil fuel levy is particularly important, given the port infrastructure investment requirements. We must all think about more creative funding packages and options rather than using the standard enterprise agency investment tools.

The opportunity is huge and the financial investment requirement is equally huge. The situation requires some thinking outside the box and the use of some creative funding mechanisms.

Willy Roe's point about alternative sources of funding is critical. Highlands and Islands Enterprise will have to ask itself whether it can find other ways of levering funding either into its bank account, so that it can fund its projects, or into the Highlands and Islands. Lest you think that we are indulging in wishful thinking, I will give you a few examples of such funding sources.

A few years ago, we identified through some of our youth migration work the challenge that we face with young people in the Highlands and Islands, who typically leave to study and do not come back, although increasing numbers are doing so, and our population is growing. With all the local authorities and other agencies, we put in place a science, technology, engineering and maths—STEM—initiative to encourage young people to study that sort of subject and we now have several hundred business ambassadors engaged in the project. However, we fund less than 20 per cent of that project, because we have levered in good money from elsewhere.

A year to 18 months ago, we reviewed our innovation system and identified that one of the best ways to encourage knowledge transfer from universities was through graduates, so we now have a varied programme, over three years, with varied types of interventions to help businesses in the Highlands and Islands to recruit graduates, with increased contribution intervention levels for businesses in remote and fragile areas. Our contribution to that programme is less than 50 per cent.

It is not all European money that we have sourced. More than a year ago, we did some work that showed that, along with renewable energy, one of the most important priorities for the Highlands and Islands is access to superfast broadband. We had a roadmap that outlined how we wanted to take forward work in that regard, but the funding challenge was huge, so we are delighted that many millions of pounds will come from the UK Government, especially as we are one of only four out of 63 projects to receive funding towards the roll-out of superfast broadband across rural parts of the UK.

A key part of our process will be to identify other sources of funds that we can lever either into our bank account—although that almost does not matter—or into the region, to assist with the economic and social growth of the Highlands and Islands.

Rob Gibson: I need to follow up on several points. First, the rephasing of the budget for the Beechwood project could lead to a funding crunch for renewables money over the next two or three years, given the size of the chunks in years 2 and 3.

William Roe: Without question, 2012-13 is a particularly challenging year. The region's economy is without question in a good position to throw up demands. If we look back at Highlands and Islands Enterprise over the past 15 years, and the Highlands and Islands Development Board—although I only observed it—in the years before that, it is probably true to say that, in most years, the organisation had a good budget for the things that were calling for investment. Of course, it did not invest in everything, but the available resources and the demand for investment were broadly in balance. However, in the past few years, the growing demands on an increasingly tight budget have created new challenges for us. Choosing priorities, as well as doing the clever stuff that we have talked about, will be the heart of our business in the future.

The board meeting two weeks ago was probably the first occasion on which the board has had to compare significant investments with each other and decide what to do, but we will have to face that routinely from now on. It is a big challenge. The scale of the opportunity for renewables in Scotland as a whole and in the Highlands and Islands is much bigger than the resources that are currently available from the public purse to support it, but it has been immensely encouraging over the past few weeks to note the succession of announcements of private investment in wave and tidal developments. We do not know what the market will do and at what speed. That is the most significant issue over the next few years. Together, can we build the confidence in the market to grasp the opportunities in and around Scotland and can we raise it to such a level that more private investment will be triggered and less public investment will be required?

Changing the capping and charging regimes is critical to market and investor confidence. Alex Paterson and I spent two or three days in London last week on all these issues. We met the Secretary of State for Scotland to discuss the current Office of Gas and Electricity Markets consultations and we met all the MPs of all parties who represent Highlands and Islands constituencies. As a result of those discussions, we have decided to create a new focus for the financial and investing community in London on renewable energy in the Highlands and Islands We will take our industry and our current investors to London to meet the energy investment community and to further build confidence in what is possible. The trick, which is not an easy one to pull off, is to build confidence among investors and others so that our money can go further.

Rob Gibson: I will follow up the question of what the creative packages are. If we are in tough times and you are looking to fund these other things, would it make life easier if the green investment bank were based in Edinburgh when it gets started in two or three years' time? Are there not investors who are already based in this country with whom we would want to engage? The conference that was held in the Edinburgh international conference centre a few weeks ago suggested that there is a good combination of projects and investors here.

William Roe: I have one thought, but Alex Paterson will give you the strongest answers on the issue.

I think that there is a wide range of potential investors in renewable energy and you see the evidence of that already. Public money is going in on behalf of taxpayers, but the evidence in the Highlands and Islands is that individuals in communities are choosing to invest co-operatively to create wind farms from which they will benefit in terms of both energy and returns. There is a successful one in Skye, there is one near Loch Ness and there will be others.

11:30

It is small scale at this stage, but it is indicative of the growing recognition that small-scale renewables are something that many people can co-invest in. We could take you to quite a lot of the businesses with which we work to show you the investments that they have made to turn their businesses round in moving from the oil economy to the renewables economy. A very successful hotel at Fort Augustus is one of the stars in that respect. A young woman took over the ownership of the hotel and decided to turn it into a green place. With that investment—most of which she made herself—she has turned what had been for years a loss-making business into a profit-making one within two years and has rebadged it in the same place.

At the smaller end, there are many investment opportunities for co-operatives in communities and for individual businesses. Over the coming years, we will look at how a collaborative of businesses on an industrial estate, for example, can move from the oil economy to the renewables economy. For the large-scale developments, however, we will need to find people with very deep pockets to do the stuff that is needed. There are investors in Scotland but, as we know, there is a completely different investor community in London and beyond. That is why we think that we ought to build that up over the next year or so.

Rob Gibson: Okay. Members will have plenty of other questions, and I have a lot more.

The Convener: Alex, did you want to add anything?

Alex Paterson: Not an awful lot. We both agree that this is a critically important issue if the Highlands and Islands region—indeed, the whole of Scotland—is to realise the opportunities that exist. There is the green investment bank and the fossil fuel levy. Increasingly, venture capital is going into renewables businesses, although many businesses would say that there is a pre-commercialisation funding issue. We are also seeing some of the major utilities companies investing in many renewables businesses.

To realise the opportunity, we must look for more creative ways of doing things, and more interesting funding packages must be part of the development plan for the sector. The low-carbon conference that was held a couple of months ago is the sort of area that we are into quite actively at the moment.

Rob Gibson: It would be interesting if you could give us in writing a definition of opportunities and needs, as I find those terms somewhat amorphous. I have heard them used in talking about particular priorities for South Uist and Scrabster, for example.

Alex Paterson: Surely.

The Convener: Both you and Scottish Enterprise have stressed the importance of renewable energy, yet in the Government's overall budget the energy line is being cut by about a quarter. Do you think that a mixed message is being sent out?

William Roe: I listened to Crawford Gillies's answer on that. It is not for us to second guess the Government's choices. As we look at it, there is no question but that the opportunities in and around the Highlands and Islands are of a nature, diversity and scale the like of which our country has not seen before. Some of them are current and immediate; some of them are in the middle distance; and some of them—especially in wave and tidal energy—are in the middle to long distance. All of them hold great promise and will hold even greater promise if the energy charging and transmission regime—which was created for the previous century—can be turned into a 21st century regime.

Our interest as a development agency is not only in the primary end of the industry—the generation and distribution—although that is obviously where the greatest focus is now and where it will remain for some years. Our interest is also in finding ways, with our partners and communities, in which economic and social benefits can accrue to Scotland—in our case, especially to the Highlands and Islands—from these investments. What we mean by economic and social benefits is fairly self-evident, but I will draw out one of them. It would be obscene if all that energy could be generated and distributed but the seven local authority areas in the Highlands and Islands remained the worst in the UK for fuel poverty. Fuel poverty is currently worse in the seven local authorities in the Highlands and Islands than it is anywhere else in Britain. On the back of developing that industry, we as Scotland need to be clever enough to ensure that we tackle some long-lasting, deep-rooted problems of energy inefficiency and fuel poverty. If we do not, we are misusing the opportunity that is ahead of us.

Although we still have miles and years to go on generation and distribution, we are very active in trying to identify the industries and economic activities of the future that will want to be located in regions that rely almost exclusively, if not exclusively, on green energy. From our discussions in Scotland and internationally, we know that more and more companies are coming to realise that, increasingly, their long-term trading reputation will depend on their green credentials as much as on the safety of their products, the efficacy of their sources and so on. I discovered that when I went to Japan last year on behalf of Scotland and met the vice-president of the Sony Corporation, which is about to decide where to create its second global data centre. It aims to have two such centres. One, which it built four years ago, is in Singapore. The other will be somewhere in the northern hemisphere. We asked the vice-president whether, if he had the chance to build the first centre again, he would locate it in Singapore. He said that he would not, because five years ago Sony did not take account of green energy and its carbon footprint when it decided where to go. Green energy and accessibility to renewable energy is among the top four criteria for its new data centre. The issue has come from nowhere.

We expect there to be significant economic development opportunities of particular kinds—not only of the kind that I have described—with companies that will want to use green energy and to be seen to do so. We expect to find that, over time, there will be some real wins for the Highlands and Islands economy if we can be clever about attracting and building such businesses.

Gavin Brown: The largest budget heading in your submission is "Growth Investment". Mr Roe spoke about the four headings underneath that: "Businesses & Soc Enterprises"; "Strengthening Communities"; "Developing Key Sectors"; and "Competitive Region". The overall funding for growth investment remains broadly the same; at £28 million, it is within £100,000 in cash terms of last year's figure. Can you describe briefly how the £28 million breaks down among the four budget headings to which I have referred? Are all four of those headings effectively static over the year? Have some gone up and others gone down? It would be helpful if you could provide us with some detail.

William Roe: Alex Paterson and Forbes Duthie are leading on the creation of this year's budget, so I ask Alex Paterson to respond first.

Alex Paterson: We have deliberately put all the headings together, partly because the board is still in the process of deciding what the split will be and partly because the priorities are new. The underlying message that we are trying to get across is along the following lines. All the areas to which the headings relate are important. Which of them are the most important? Our support for businesses and social enterprises is right at the top of the list of what we do. A successful Highlands and Islands needs more and more successful businesses. The investment that we make in our account management system and the large number of businesses that we support beyond that and our work to support innovation and international trade fall under business and social enterprise activities.

Strengthening communities is synonymous with HIE and is integral to what we will do in future. We think that there are new opportunities to strengthen communities, because many of the region's opportunities—in renewable energy, the use of telehealth care, business services, home working and other models of business—are materialising in some of our remoter and more fragile areas.

The "Competitive Region" heading includes things such as our work on the Beechwood campus and with UHI, in which we have invested significantly over recent years, and our work on broadband. The £28 million for growth investment is not all that we will spend—that is how we want to use our moneys but, as we said a few minutes ago, we will lever in other funds for such activities.

I am a wee bit reluctant to give you a breakdown according to the four priorities—it is still work in progress. We want to keep our spend on those four priorities and on the activities that sit beneath them at a level that is as near as possible to those of this year and last year. That does not mean that we are dropping transformational projects; we have scope, however, to reprofile the funds, particularly when it comes to the Beechwood campus, Scrabster and Lochboisdale, to ensure that we can keep the four priorities with roughly the same level of funds as they have had this year.

Gavin Brown: You cannot say what level of funds will be in place for 2011-12, as you are still in the process of deciding. As far as 2010-11 is concerned, are you saying that you cannot tell us because the headings do not currently exist, or did not exist when you set the 2010-11 budget?

Alex Paterson: Over the past two or three years we have given you budget figures that are hard to relate to one another. In our submission, I have given you what was set out in our operating plan. We have set out what the operating plan said and where we are now in terms of delivering against the operating plan, using broadly the same headings under "Growth Investment" for next year, so as to provide some comparability over the period.

Forbes Duthie: We can certainly provide a breakdown of our spend to date—that is not a problem. We had a single figure for our "Growth Investment" budget last year, although we had a detailed breakdown of that for our own internal purposes, which I am happy to share. As Alex Paterson says, we have moved to four strategic priorities. It is not a comfortable match, but we can certainly use them for comparison purposes.

In HIE there has always had to be flexibility in the budgets that we set in order to cover the new projects that emerge from time to time, and it is important to continue that. We can certainly provide the information that you request.

William Roe: I wish to reinforce that final point. When I worked in Skills Development Scotland I was astonished to discover a real difference between HIE and SDS in one respect, which I wish to explain in response to your question. HIE is open for business every day of the year, to make investment decisions and to respond to things that come along. People come to us literally every week of the year, and projects that our managed companies work on come to fruition. It is a really important characteristic of a development agency to be open for business every week of the year. That requires the adaptiveness that Forbes Duthie has just recognised.

When I went to Skills Development Scotland I discovered that it is open for new business once a year, essentially, as it commits almost all its budgets at one point in the year. Until now, it has found it difficult to respond to dynamic change as the year has gone on. Skills Development Scotland has made some progress in the current year, but the contrast is real. I would wish to hang on to the flexibility and adaptability that the enterprise agencies have, so that they can respond to things that do not turn up at the beginning of the financial year.

Stuart McMillan: You mentioned Moray in your submission. We note the defence cuts that will affect the Moray area and the devastation to the local economies and communities—and the longer-term effects on Moray. When we were in Skye, I compared what is happening in Moray now, in terms of economic impact, to what happened when the shipbuilding industry in Inverclyde went in the late 1970s and early 1980s.

What guarantees of additional future assistance have you had from the Scottish Government and from the other political parties that have signed up to supporting Moray and the Moray campaign?

11:45

William Roe: Thank you. I worked in Inverclyde for five years when the shipyards were closing and the community was rent asunder by huge job losses. I described recently to my colleagues, when the Moray story came along, how lessons could be learnt from the Inverclyde experience. In particular, I worked on what was then called the manpower side—the people side—of redundancies and new developments.

Nothing that has happened in Moray has come as a surprise to us. A decade ago, Kinloss was under threat. That threat did not materialise at the time, but the possibility of it being lost caused us and our partners to create a 15-year strategy for turning around the Moray economy. We called it Moray 2020, because we thought that it would take 15 years to diversify the economy in all the necessary ways. That plan was activated in anticipation that some day hard things might happen in Kinloss. Even if they did not happen, our analysis was that the Moray economy was too defence dependent—the most defence dependent part of the UK in fact—and therefore had all the vulnerabilities that go with that. Although what has happened is really bad news and there could be more bad news to come, the work that we and all our partners did has given us an exceptionally high-quality, in-depth understanding of the Moray economy and communities. When the defence and security review announcement was made, we were able to move rapidly to a well-informed position about the knock-on effects of it all.

We could spend all day talking about Moray, because the implications of what has been announced and what might yet be announced are profound. You probably know that if both bases in Moray were to close, the impact would be the equivalent of 40,000 job losses in Glasgow or 300,000 job losses in London. You can imagine how either Government would react if that were happening. A response of that nature, and on that scale, is undoubtedly called for.

The Scottish Government's belief, which we strongly support, is that the Ministry of Defence and HM Treasury between them should be expected to invest in Moray in response to their withdrawal from it. The attempt to achieve that is in the hands of the Scottish Government at the moment. We discussed it with the Secretary of State for Scotland in London a few days ago. That is not to say that people in Scotland are sitting on their hands—not in any sense at all. There is significant work under way and there are significant plans to go further with the diversification of the Moray economy. In the weeks and small number of months ahead, we hope to be able to tell you some good news stories about investments that are coming along on the back of some that have already been made.

There is no doubt that even if Lossiemouth were to be rescued from the threat that is hanging over it, the end of Royal Air Force operations at Kinloss will have a very profound impact—in fact, we know from the task force's work that that impact is already being felt in the Moray economy. If you visit Kinloss, as I had the chance to do just three or four months ago, you will appreciate that it is not just an industrial or military site but a whole town of houses, schools, sports centres, industrial facilities and families. It is a town in Scotland, not just part of the MOD.

The worst thing of all that could happen would be for the MOD to sit on Kinloss and let it rot, so that the assets were wasted such that they could not be turned around and used again for economic and community purposes. The most important thing is that the MOD makes quick decisions about Kinloss that will allow the assets there to be reused for other military or, ideally, non-military purposes.

We know from our experience and research on previous military closures that, in the United States, the Department of Defense takes the lead when military bases close. I visited the office of economic adjustment in the Pentagon. Every time a military base closes, its ambition is, over a decade or two, to ensure that there is more valuable economic activity in the civil sector on the base than there was when it was a military base. We think that the MOD and the UK Government should have that ambition for Kinloss—to put the assets into the hands of people who can turn them into civil assets for the future.

The Kinloss base is full of astonishing buildings. Some go back to the second world war; others have been constructed only in the past five years. The latter are worth millions of pounds. One of them houses the world's only simulator for the MRA4, nine of which have been built and none of which will ever be used. The simulator and the building it is in cost £30 million. If we took out that simulator, we would have a building that any science or technology business in the country would love to inhabit. Getting these assets into the hands of people who can turn them into civil assets for the future is one of the most important things that the MOD can do. The focus is now on such big-picture issues. If they can be got right, many other things can follow, partly under the leadership of the taskforce, partly under our own leadership and partly under the leadership of companies in Moray.

Moray is an unusual place. It is, as I mentioned, highly defence dependent but it is also home to some of Scotland's best known international brands: Baxters, Walkers, Johnstons of Elgin and often internationally owned whisky distilleries. However, even though Moray is home to things that are profoundly important to the Scottish economy, its economy needs to be greatly diversified and in that respect we have plans and intentions in the life sciences sector, the low carbon sector, the engineering and science sector and the tourism sector, the last of which is still very underdeveloped. The area has certain assets, but it has not become the successful tourism location in Scotland that, for all sorts of reasons, it undoubtedly can be. Although there is anxiety in Moray like there has never been before, our job is to channel effort to ensure that the most significant things, which I have just described, are done first as people plan for a much wider range of investment in future. We will be part of that activity for as long as I can see.

Stuart McMillan: You mentioned learning from mistakes made in Inverclyde in the 1980s. Is there anything that happened at that time that you would do your utmost to ensure would never happen in Moray?

William Roe: The ups and downs that Inverclyde has experienced since the shipyards closed would make an extremely interesting case study for Scotland and the UK. Some of the best moves in Inverclyde included the big focus on training and retraining the redundant workforce. Of course, that was before the days of local enterprise companies, if your memory goes back that far. A special organisation called the Inverclyde training trust was created to pull in many millions of pounds from European and other sources. It became a vehicle for financing training for the future, not for things that were on their way out.

Moray is not Inverclyde, which is attached to the rest of central Scotland, is close to two international airports and, what with its electric train services, proximity to Glasgow and all that goes with those things, has a hell of a lot going for it. Moray is not as geographically advantaged as Inverclyde and, despite all the factors that we have discussed, it has one of Scotland's lowest-wage economies, which is something that we need to tackle as we make new kinds of investment in the area. Nevertheless, as I have said, because defence has been such a big focus it has underused assets that will be important for the future.

Because of where it is, Moray is perceived as remote and difficult to access. That is partly because once you leave the A9 at Aviemore—not, I should add, that the A9 itself is brilliant—and get on to the A96 or any of the other routes into Moray you have to take roads that, to be honest, would in somewhere like France be classed as rural tracks rather than A-roads. I do not want to make too much of the comparison between France and Scotland but I think that, if this were France, we would have had by this time a dual carriageway, if not a motorway, the whole way from the Forth bridge to Elgin that would not simply stop at wherever.

Moray is also poorly connected to the two thriving cities that lie to the east and west of it. They are not big cities—Aberdeen is a decent size and Inverness is small but growing—but nevertheless the connections between them are extremely poor. I acknowledge that the roads are gradually improving, but the pace of improvement is very slow.

The railway connection between Aberdeen and Inverness is second rate. The services are infrequent and do not help the county to gain the benefits of its proximity to the two cities. One of the long-term visions is for Moray to be a thriving county that is connected to the two cities at either end of it. The potential for the county is real, but the issues that it faces are deeply troubling.

Stuart McMillan: I have one final question. You mentioned that you went hunting for finance outside Scotland and the UK. Did you choose to do that or did you feel that you were forced to do it because of the lack of lending from financial institutions in Scotland and the UK?

William Roe: We chose to do it. Alex Paterson was the director of regional competitiveness and I was the chairman. We asked ourselves what a development agency that is ambitious and, I hope, clever does when it is faced with such a situation.

We were not going to pull the blanket over our heads. We were not going to say, “Well, we can’t do as much as we used to,” because that would be defeatist. Rather, we began to break into new territory. Alex Paterson led the work on that. I asked the question, “What should we do?” and he developed some of the answers. He might want to say more about that, because it is an important thing for our future.

Alex Paterson: We chose to do it and we are choosing to continue to do it. It is fundamental to our being able to deliver all the things that we want to deliver for the Highlands and Islands.

The issue is slightly different from the one that you raised. We would not necessarily go to financial institutions and ask them to lend to us. There is undoubtedly still a challenge in the business community’s ability to access the funds that it needs to go forward—the Highlands and Islands faces similar challenges to elsewhere in Scotland in that respect. We made a deliberate choice to go and supplement our grant in aid from other sources. The one or two examples that I have given this morning are just the tip of the iceberg of what we have done and what we need to do. It is a deliberate strategy on our part to supplement our core income from the Scottish Government by levering in as much as we can from elsewhere—not for the sake of it, but to help us to deliver on our priorities in the region.

William Roe: “Elsewhere” includes public funds from Europe. We have been good at drawing those into Scotland for many years, but not from all the sources. There are many more funds in the European space than we draw into Scotland at the moment, so there is an effort there.

There are also UK funds that can come to Scotland if they are attracted by brilliant propositions. Broadband delivery UK has hundreds of millions of pounds to invest during the next 10 years. Alex Paterson was too modest to say it, because he led the work on our broadband delivery UK bid, but we have been told privately that the bid from Highlands and Islands was the biggest and best of the 63 bids from the various parts of the UK and it will provide lessons for many other parts of the UK about how to do the work in rural areas.

The Technology Strategy Board is a Department for Business, Innovation and Skills quango that had done little in Scotland until we went and knocked on its door in Swindon and brought it some fantastic investment propositions. We now have a great relationship with the TSB. If you hear about the TSB, it might be the Trustee Savings Bank, as it was, but increasingly it will be the Technology Strategy Board.

We are also going to explore how we can use our MIT connections. MIT is located in one of the richest regions of the world, which has a vast investor community. It is not something that we have done so far, but in the coming years, as the relationship develops and deepens and broadens, we would like to explore how we can tap into philanthropic, commercial, academic and other investment from beyond our shores as well as some other parts of Britain. I do not know why we would not want to do that. We want hugely to internationalise our economy across the board, in all sectors and all sizes of business, and to do that we need to be profoundly strong in international connections. We talked earlier about our connections with SDI, which have become better and better in recent years, but there is still miles to go. That is what we have set out to do. The Government did not ask or tell us to do it; we decided that it is good for our region and we are going to give it our very best in the years to come. We will be happy to account to you each year for what we have achieved, and some interesting lessons might come out of that.

Stuart McMillan: Thank you.

12:00

Ms Alexander: I have just one question. However, in view of the time, it might be better if HIE were to write to us on it.

Back at the beginning, in following up Rob Gibson’s questions about the significance of renewable energy for Highlands and Islands communities, you touched on the importance of grid connection. There is currently an Ofgem inquiry into the price and availability of grid connections. It would be helpful if you could write to us with HIE’s thoughts on that area and its economic significance.

Linked to that, where are we on community benefit from microrenewables? The planners are obviously keen to say to us that they cannot be involved in that as it is none of their business. Nevertheless, we were struck, in talking to some of the post buyout communities, by how significant it is for them to get a toe hold in primary industries, whether forestry or renewables. They told us about some of the difficulties that they face in negotiating the territory of optimal locations of microrenewables, grid connections and securing community benefit. They were also quick to stress that, were they to secure an income of the order of £250,000 a year to a community trust for a post buyout community, that would be invaluable security to that community and would have durability that private investment in individual tourism projects, et cetera, might not have.

It would be helpful if you could write to us about what you think the policy agenda is and about the brokerage role that you are trying to provide, given the significance of microrenewables, which Willy Roe has mentioned. We came away from our visit with a slight concern that we are so keen, on a Scotland-wide scale, on our relationship with major generators that there is a risk of losing sight of the scale of the opportunity in microrenewables and of the obligation on some of the very large corporates to help people to take up opportunities at a much more local level. That was a pressing issue on our recent committee visit, so a note about the opportunities that exist and the emerging policy agenda would be helpful.

The Convener: As the next panel is not due to start until 12.30, there is a bit of time in hand.

Alex Paterson: I am delighted to provide a note.

The issue of community benefit from renewables is vital. Some communities in the Highlands and Islands are now generating significant sums from the community renewables investments that they have made. That, in itself, poses an interesting challenge, but equally there is a huge opportunity in how they spend that money.

I accept that there is a danger that, in looking at some big-scale port infrastructure, we sometimes miss the small-scale opportunities for renewables. However, given the history of Community Energy Scotland and so on, that is a vital area for us and we are happy to write to you in more detail on it. We will also write to you on the Ofgem consultation, which is absolutely critical. Some of the costs of generating and distributing renewable energy from the northern isles and the Western Isles are incredible compared to the payments that are made for doing it in parts of England. We therefore welcome the Ofgem consultation and the Department of Energy and Climate Change's move to look at transmission capping at least as an interim measure. We have some people in the office who know much more about these things than I do, and we will be happy to share with you our thoughts and the evidence that we will submit to that consultation.

Ms Alexander: Thank you.

The Convener: I do not know whether Lewis Macdonald has any urgent questions to ask. I will let you know if we have already asked them, Lewis.

Lewis Macdonald (Aberdeen Central) (Lab): I apologise to the convener and the panel for being unavoidably delayed travelling down the east coast of Scotland this morning.

Like Wendy Alexander, I was struck by some of the evidence that we heard on our visit to Sleat and the evidence on the capacity of Highlands and Islands Enterprise to deliver, both historically and currently. The point was made to us forcefully by a range of witnesses that what HIE was able to do in the past in terms of community land buyout—I see a reference to that in your written submission—and regarding support for community energy and Gaelic would be beyond the reach of HIE as it is currently funded and constituted. If you have not had the opportunity to comment on those issues already this morning, I would be grateful for your views on them. I am especially interested in support for community land buyout and for Gaelic, with its economic and business potential.

William Roe: I am happy to pick that up. In the papers that we sent you, there is what we call the measles map, which we produce to reveal to ourselves the distribution of our investments. When that map was generated, it seemed to me to be a strong statement, which is why we included it in the papers for you. The map indicates—[*Interruption*.] Oh. We did not include the map.

I have the map here, and we will send it to you—I can pass it round for the moment. It is called the measles map because it looks like measles. It records where geographically we have invested in the past two years or so. As you see, it includes just about every inhabited location in the Highlands and Islands.

I will start on community energy. It was our choice, under informed pressure from communities, to get into microrenewables some years ago. We created the Highlands and Islands Community Energy Company as a unit within our operation to innovate in that space. It became so successful and effective that we gave it a life of its own and created it as an independent company. Incidentally, that is a practice that we have used several times over—we call it promote and float. In different sectors, we try things out and make them work, and once we are confident that they are working we push them out into independence, which helps them to flourish even further. Hi-Arts was the first such company, and it has undoubtedly been one of the most successful, and the Community Energy Company is another. It is now independent and covers Scotland as a whole, not just the Highlands and Islands. It is based in Dingwall, and it is the main source of technical support and investment advice on microrenewables for communities.

The potential of microrenewables is in the hands of individuals and small businesses as much as it is in the hands of communities. It is a sector that is growing rapidly in the Highlands and Islands. There is enormous demand and interest, and it is fuelling a new growth in businesses that used to be called electricians or plumbers but are now called renewable energy investment and installation companies.

Some of the most enthusiastic and committed communities are the smallest in the most remote areas. Indeed, the movement has significant credibility internationally among people who think that a balance needs to be struck between grid distribution to every corner of the world and the generation and use of energy at local level. We think that there is a place for both, but the local and small-scale generation is better.

That is especially the case when, as in the present regime, it is possible for communities to gain long-term returns on their investment. To find that out, members only have to do what Alex Paterson and I did a few weeks ago, when we went to Orkney to meet the community development officers who work on each of the outer isles of Orkney, financed by Highlands and Islands Enterprise and Orkney Islands Council together. We have a new wave of community development officers, funded jointly with local government, in every part of the Highlands and Islands. They are reinforcing our long-term commitment to strengthening communities and, increasingly in this era, to helping communities to invest in assets that will bring secure long-term income.

The chair of the Westray Development Trust was at our lunchtime meeting in Kirkwall. The people in Westray are well down the road now, and they have money coming into their community from the investments that they made four or five years ago. She told us that they are facing a set of difficulties that they never expected to encounter: they have their own money—hundreds of thousands of pounds a year—coming into their community for the next couple of decades, and they have never before had the opportunity to take responsibility for investments and to make them wisely in the long-term interest of their community. She said that it is a joyful place to be, but that it is throwing up new challenges for them. When a community has turned such a corner, it is clear that things are on the move.

In South Uist, where we invested £5 million last week in the Lochboisdale port-of-entry project, there is Stòras Uibhist, the community company that owns most of South Uist now and in which we have invested millions since it began, including a contribution to the purchase. We have been a continuing investor for four years now to help build up its capacity and capability to do the ambitious things that it wants to do.

However, in two years it will have an annual income of about £2.5 million from the assets in which it is investing. We will be able then to step back somewhat, but not completely, from the feedstock of money that we are having to put in every year. We do not regret the investment, but the ambition of that investment is to get the community to a point where it has its own sources of regular income. That is an empowering thing that forces people to make wise, long-term choices so that they become less dependent on bodies such as us for everything, and it is a really good move. So, we are fully committed to going down this road because it leads to long-term success rather than being just a drip-feed of more grant aid.

Lewis Macdonald: South Uist is a good case in point. Again, my apologies if the question has already been asked, but you referred to the anticipated £2.5 million revenue for Stòras Uibhist: is that potential income impacted on by the recent decision not to go ahead with the grid connection between the Western Isles and mainland Scotland? Clearly, that has the potential to derail quite a lot of good initiatives in the Western Isles, which have particular development needs at the moment.

Alex Paterson: We touched on that earlier. I suggested that I recognised when I am out of my depth in terms of the technicalities, so we will provide some information about that. However, you are right that Stòras Uibhist clearly has a plan to develop energy from renewable sources. A grid connection to the Western Isles and other parts is vital, and there is clearly a concern about that.

I read the evidence that you received in the Skye remote meeting and I thought "Why would HIE not do that type of thing in the future?" It may not be the same thing, but helping communities to invest in their own assets is something that we want to continue to do. We may not have growing community assets funds through the Big Lottery Fund to do it, but it can still be done in other ways.

One of our top priorities is to get superfast broadband across the Highlands and Islands. John Watt, who leads that work for us, has just renamed the community land unit the community assets unit, because the expertise is in helping communities acquire, develop and realise the benefits that come from income that is generated from those assets. So, without committing us to this, you can envisage a situation in the future where, having done a range of projects around community land and having invested considerably in community energy, we ask whether what is next is community broadband and other things—so the whole area moves forward. However, as you would expect me to, I challenge the suggestion that we are not ambitious or would not embark on those types of activity in the future. Doing so is fundamental to what we as a region need to do and what we as an organisation need to continue to invest in.

Lewis Macdonald: I did not read, or hear, the comments that were made as questioning your will or ambition, or whether the resource exists. For example, one take on that might be that a community land unit could support the aspirations of communities to purchase the land on which they live. However, a community asset unit has, because of resource constraints, to have far more limited aspirations in terms of support. In other words, there are other things that you can do in communities that have already taken that first step forward, but perhaps you are no longer in a position in the same way to allow communities to take that first step forward in acquiring the land on which they live.

William Roe: As well as traditional ways of financing such developments, we are likely to see—this is not imminent, but I know that people are talking about it for the mid-distance—new methods by which the whole movement of community asset ownership and development might be financed. One of the possibilities, which we might revisit next year or afterwards, is the idea that each of the communities that acquires assets and income streams from them could create a pool of investment that essentially contributes back to the organisation that helped them to succeed, in order for it to enable the next communities to succeed. For example, there is discussion among several of the communities that already have income from wind farms about creating an asset base, so that they can be investors in other communities.

I think that we will see clever ideas that we have not come across before. It will be a sign of great long-term strength if the hurdle is crossed of people not looking first to the public agency because the movement has its own resources. We find that in other walks of life where communities have strengthened themselves in such ways.

12:15

Lewis Macdonald: That is encouraging. Are you saying that HIE still has a distinct role that it is better placed to play than anyone else, even though in some respects it is more an enabling role than the doing role that it had in the past?

William Roe: I would like Alex Paterson to answer your question—not because I cannot answer it but because he is our new chief executive. Before we made the appointment, the board was clear about the fact that, when recruiting a new chief executive, it wanted someone who would in no way diminish the dual commitment to economic and community development but would bring new ambition and freshness to it. If Alex Paterson answers the question, you will get a sense of how we appointed the right guy for the job.

Alex Paterson: No pressure, then. [*Laughter*.]

The community side of things is part of HIE's approach going forward. Over the past few years, that side has become a bit marginalised, for various reasons. My aim is to put it much more centre stage in what HIE does—not just for the sake of it, but because we cannot deliver our community and economic development remit in all parts of the Highlands and Islands without the toolkit that the strengthening communities part of our organisation brings. The issue is fundamental for that reason and because the opportunities that our communities will face in the future will be different.

This morning we have talked about renewables and about what broadband can do to strengthen communities. We have also talked about new industries, especially in areas such as financial and business services and teleworking, which is coming through significantly, and about the challenges in relation to how communities that are earning money from income-generating assets use it to develop themselves even further. Many of our sectoral activities—not just in energy, but in tourism and the creative industries—have a strong community dimension, not least in relation to Gaelic.

HIE's strengthening communities function is vital to the region and will become more central to what the organisation does, instead of being increasingly marginalised. This morning we have discussed how we can do all that work when our budget is going down and aspirations and opportunities are going up. As we have said at length this morning, our strengthening communities function provides us with real opportunities to do some interesting deals to lever into HIE or into the region funds from other sources. The Big Lottery Fund was a good example of such a source; it is no longer available for the moment, but there are real opportunities for us to try to increase the size of the pot for that type of activity. Although that part of what HIE does is not in my background, I assure the committee that I see it as being vital. It needs to be a bit different from what we have done in the past, to reflect the importance of the needs and opportunities in some of our remoter and more fragile areas.

In the past, strengthening communities activity has been focused largely, although not exclusively, on our remoter and more fragile areas. In principle, that is right, but part of the solution to the challenges in Moray will be to work with communities in the area. The RAF bases do not just do all of the techy stuff and provide staff for the health service—they are also integral to the community fabric. Through our community account management programme, we work with 42 different communities across the region on an account-management basis, just as we do with businesses. It is vital that we develop the programme over a period of years, although it is starting to address the underlying opportunities and challenges in some remoter and more fragile areas.

We may do fewer of the things that we have done traditionally, but we will definitely move into new areas that are increasingly important for communities, and we will build on initiatives that we have started recently, such as CAM and working with social enterprises. All those activities will be features of HIE in the future—not because we happen to have a strengthening communities function but because we have a remit for economic and community development in all parts of the Highlands and Islands. We can fulfil that in some parts only with the toolkit and interventions that our community function brings to us.

The Convener: I will conclude with a couple of similar questions to those that I put to Scottish Enterprise. Your submission contains a table entitled “Financial summary by theme”, which shows that the overall change in your budget will be a 10 per cent reduction but that salary costs will be unchanged. Why will your salary costs not reduce although your overall budget will reduce by 10 per cent?

William Roe: To which table are you referring?

The Convener: It is the financial summary table at the back of your submission, which is intended to provide a consistent read-across with other budgets.

Alex Paterson: My response—Forbes Duthie can correct me—is that both sets of figures relate to the coming year and do not compare this year’s budget with next year’s budget. The figures relate to the operating plan for next year and the draft indicative budget for next year.

Page 4 of our submission compares figures for the past two or three years. That shows that our operating costs, which include salaries, have reduced from £17.2 million to an expected £15.4 million next year. I will make a couple of important points about that. Salary costs—and some other overhead costs, but particularly salary costs—are not all in the back office. Many staff are out there working with businesses and social enterprises in communities.

As a baseline, we have sought to ensure that our operating costs—including our staff costs—do not increase as a percentage of our grant in aid. The £17.2 million of the £54.6 million of grant in aid in the right-hand column on page 4 is exactly the same percentage as the £15.4 million of the £48.3 million in the left-hand column.

If we can reduce our operating costs more, we will do that. We are considering shared services and whether we can lever more savings out of our estate. However, our commitment is to keeping our operating costs at least at the current level and certainly no higher than their current percentage of our grant in aid. Given reducing grant in aid, that implies that those costs are declining.

The Convener: Highlands and Islands Enterprise’s budget will reduce by 10 per cent. As the economic development agency for the Highlands and Islands, do you think that that is consistent with the stated aim in the budget document that the “first strategic priority” is

“supporting economic recovery and increasing sustainable ... growth”?

William Roe: Our ambition and intent, which we are confident we will achieve, are to act to replace each £1 million reduction in grant aid from the Scottish Government with at least that amount, if not more, from sources outside Scotland.

The Convener: If you succeed, perhaps all your budget will be taken away.

More seriously, the committee can recommend budget changes. If we recommended an increase in Highlands and Islands Enterprise’s budget, what would your priorities be on which to spend additional resources?

William Roe: The challenges in Moray are prominent and long lasting. Even if the Scottish Government succeeds in winning investment from the MOD and the Treasury in relation to the bases, making the Moray economy more diverse will be a big challenge, in terms of any geography, that will last for 10 to 15 or so years. That feels like a need in the short term—I will come back to Rob Gibson on needs and opportunities—but it will without question express itself as economic opportunities further down the line.

As for the enabling investments that make other things possible, the two that stand head and shoulders above any others are renewable energies and broadband. The coalition Government’s ambition is to have superfast broadband in every premises in the UK. In the next two and a half years or three years—I will call it three to be on the safe side—the initial investment that we will orchestrate is likely to put superfast broadband in about 40 or so towns in the Highlands and Islands. We are already working on wave 2, which is still to be designed, which will take superfast broadband into all the rural areas.

We are now turning our minds to the potential impact of all that. The availability everywhere of 20MB or 25MB broadband will create completely new kinds of opportunities for the economy, for the delivery of education and for the national health service to become more effective and efficient, and will in time provide a means of allowing the young population in the Highlands to stabilise or even to grow. We think that investing in superfast broadband will create transformational—with a capital T—change.

If we ever doubted that, we had only to talk to the Faroese Government, whose representatives we met last week in London. Every premises in every island in the Faroes already has superfast broadband and 3G—and, soon, 4G—mobile telephony, not only in every place a person can go, but 80km out to sea, to support the fishing industry. If the Faroes can do that, we think that Scotland can and should do the same.

The acid test was the question that we asked at the end of our discussion: after two years, could they see any economic, social, health care or educational benefits from such a policy? The response was “Of course”. For us, the most significant point was that 43 per cent of the young people who leave the Faroes to go to universities in other places now return and set up businesses in the islands. The figure has gone through the roof. We were told about the health care services that are being provided and the small businesses in the remote islands that are trading globally. Those are the benefits that we want and expect to come to the Highlands through such a move, and as soon as we go out to contract for the wires and the pipes—and even before that—we and others will be turning our minds to a major campaign about building the businesses and public services of the future that will be possible with such a transformational technological change.

On balance, that is probably where I would put the money, but Alex Paterson might have a different view.

Alex Paterson: No—I agree. I simply want to say that there are two labels that I want the Highlands and Islands to acquire over the next few years: first, Europe’s marine renewable energy capital and secondly, Europe’s most digital region. Broadband connectivity is a means to an end and we have a Highlands and Islands strategy that focuses on how we might capitalise on such moves, but if we are seen by those looking in from the outside—as well as by the indigenous population—as being at the forefront of marine renewables and as being a truly digital region, that will go a long way towards underpinning the Highlands and Islands’ competitiveness over the next few years.

The Convener: I thank Willy Roe and his team for giving us a Highlands and Islands perspective on the budget. I suspend the meeting for a few minutes to allow the panel from VisitScotland to arrive.

12:27

Meeting suspended.

12:34

On resuming—

The Convener: I welcome our third panel of witnesses, who are from VisitScotland. I ask Mike Cantlay to introduce his team and to make any opening remarks.

Dr Mike Cantlay (VisitScotland): Beside me are Ken Neilson, the director of corporate services, and Malcolm Roughead, the chief executive. It is a bit ironic, looking at the weather outside, that we have had to cancel the reception on the theme of our winter white campaign that we were going to host in the Parliament this evening. We hope to catch members during the day. VisitScotland has a reputation for turning challenges into opportunities. Perhaps folk are getting their dose of winter white wherever they are. I know that some have not made it to Edinburgh.

Before we get into questions, I highlight that our core focus at present is 2011. We are fixed on creating an opportunity out of 2011. If successful, Scottish tourism will earn £11 billion for the Scottish economy next year and support 270,000 jobs. We believe that investment in tourism is the best single investment that Scotland can make right now. Our focus is to sell as hard as we can. Our ambition is to exploit the recession as best we can and win market share at the expense of our competition. That is the framework that is in the back of our mind as we look towards next year. I am happy to open up to questions, which we will answer as best we can.

The Convener: You are faced with a substantial reduction in your overall budget. Will you outline your thinking on your priority areas and the decisions that you have taken about where to make reductions?

Dr Cantlay: There is a 7.5 per cent reduction. I will let Malcolm Roughead get stuck in and tell you about our feel as to how we should progress.

Malcolm Roughead (VisitScotland): For some time now, certainly in the past six to seven months, we have been planning ahead anyway. In May, I implemented a series of reviews to look at how VisitScotland could generate efficiency savings that we would be able to plough back into more of the high-yield marketing expenditure. That work is on-going and will continue. That 7.5 per cent reduction, which translates into £3.3 million, is at the bottom end of the scenarios arising from the comprehensive spending review for which we have been planning. We considered reductions of anything between 5 and 20 per cent, so we are in pretty good shape to ensure that we protect the marketing, information and quality services that we provide on behalf of the tourism industry.

The Convener: The marketing budget is being reduced significantly. The reduction is not huge in the great scheme of things, but it is significant. Given that, in a recent evidence session, we were told that tourism is flatlining rather than being on a trajectory to meet the 50 per cent growth target, is it acceptable that our tourism promotion body is reducing its marketing budget?

Malcolm Roughead: We need to consider that in the round. We do not work on our own; we work with a range of partners. We have several major private sector partners such as airlines and other transport providers and accommodation providers. We also work with companies that are not traditional tourism companies, such as Highland Spring, to enhance the budgets. We need to consider ways of communicating more effectively, which can be about reprofiling what we do. In many markets, we have increased our activity online. That in itself can generate efficiencies that we can put into other activities in different markets. The issue is about having a balanced portfolio and ensuring that we can communicate most effectively with the means that are at our disposal.

Dr Cantlay: I will make two points to augment that. The convener mentioned the growth agenda, which we talked about at length when I was at the committee previously. The Scottish Tourism Forum and the tourism leadership group are working hard on the aspirations, and it is right that those should come from the industry. I hope that 2011 will be the year in which industry leads in highlighting where those step changes will be. We are looking forward to working with industry on that process.

In the meantime, when I am out and about speaking to industry players, their focus is on being busy next year. Our focus is to sell as hard as we can. The bottom line is that we are confident that, despite the cut, we will be able to maintain the level of high-yield activity that we have been achieving. The question mark comes when you see that, if our budget is to be broadly £40 million, the total marketing spend comes up to £60 million when we add in all the other partners. Over the winter, the trick will be to maintain their impetus. Our hope and ambition, and what we intend to do to encourage partners, is to try to maintain the high-yield spend because that is the key to selling Scotland in 2011.

The Convener: Do you envisage any significant changes in the focus of the marketing budget over the next year? Were there any significant changes in how it was focused this year compared with previous years?

Malcolm Roughead: It will depend on the channels that we use. Television, for example, is much more expensive than other media. That is what I was talking about when I mentioned looking at using digital media much more effectively. We are looking at a number of information provision pilots with mobile and wireless providers. We are also looking at how we can work with partners such as VisitBritain and at harnessing the potential at local level through various sectoral interest groups, destination management organisations and local authorities. As Mike Cantlay said, it is important to get over the fact that people realise that benefits from tourism are there to be had. They are much more tangible and immediate. In the conversations that we have had, we see a willingness to keep up the level of investment.

We have managed to maintain the spend on marketing at around 77 to 78 per cent of the total budget.

The Convener: Perhaps I did not phrase my question properly; I was thinking less of the media that you are using for marketing than the geographic areas in which you are doing that marketing.

Malcolm Roughead: That is about prioritisation of markets and looking at where we can get the best return on a particular investment. I come back to the notion of a balanced portfolio. We have emerging markets in places such as Russia, India and China and we work closely there with Scottish Government agencies and, as I mentioned, VisitBritain. Our current focus is on Europe and the UK, particularly the Scottish domestic market—everyone is aware of the staycation effect, and we have all seen evidence of it. We are seeing a bit of a bounce back in North America's economic confidence, and that should also translate into activity.

We have to be fleet of foot and look at where the opportunities are so that we can reprofile as and when required.

Rob Gibson: You have talked about collaborating with VisitBritain in these tough times. It would be useful to know the impact on the comparative spend ratios between VisitScotland and some of our near neighbours in Britain and abroad. How does our budget for these things compare?

Dr Cantlay: If I remember rightly, it looks as if VisitBritain's budget will be down 34 per cent over the spending review period. That is a real worry to us because VisitBritain is a core strategic partner in delivering on the ground. It is taking time to work out what it will do. It has 30-odd operations around the world, and we use it extensively. In all probability, it will review that network and how it best services the market. There is to be a

VisitBritain board meeting next week. That is when I will be looking for clarity on what it will do with its strategic focus after the spending review.

12:45

Rob Gibson: We were talking about ways of making the money that you have go further. How is that aided by the collaborations with other bodies in Britain and so on?

Mike Cantlay: VisitBritain is a core partner, as we have no staff stationed outwith Scotland. We use its auspices extensively. For example, with regard to Scotland week in the States, we are able to send a team out to hit the ground hard because VisitBritain has a base out there and it has contacts and so on that we can access. It is an ideal relationship. It depends on our support and activity and we depend on it for reach. Presently, it handles certain countries in which we have a minimal presence, because it has people in them. That is particularly the case in the emerging markets beyond India, China and Russia, which have been our core focus.

Malcolm Roughead: There are three main areas of activity in which VisitBritain makes a valuable contribution: trade relationships, public relations and research. If it withdrew those services completely, we estimate that it would cost us around £1 million a year to replicate them. VisitBritain, therefore, makes a tangible contribution, quite apart from the fact that there is a lot of sharing of best practice, not only in marketing but across the board. We work closely with it in relation to quality assurance and back-office practices, and we have a number of on-going joint research projects.

I reiterate Mike Cantlay's view that VisitBritain is an important partner for us, particularly with regard to our ambition to reach new markets.

Rob Gibson: How do the international awards that are gained by places such as Shetland and Skye play into VisitScotland's plans this year? I know that the year of islands culture will take place, but is VisitScotland able to use the awards to promote the idea of the desirability of coming here?

Malcolm Roughead: Yes. They are valuable tools that allow us to reach greater audiences. However, success brings challenges. The places that you are talking about have issues around accessibility and capacity, particularly in peak season. Although the awards give us a great base to work from, they also throw up a number of issues that we need to work on locally. Recently, the Western Isles has been reporting fantastic levels of bookings but, of course, no rooms are available, so people are trying to find temporary campsites and so on.

The awards are great and important to us in terms of positioning brand Scotland on the world stage, as those places are exemplars of best practice.

Dr Cantlay: The Moray Firth coastline was recently highlighted by *National Geographic* as one of the most superb coastlines anywhere in the world. One of the challenges that we face involves how our customers in Scotland perceive us. There are people not only in Scotland but on that coastline who might not necessarily realise that it is quite so special and appreciated. The challenge is not only to use the tools to encourage visitors to come to Scotland but to get Scots to appreciate the assets that we have.

The year of islands culture will be interesting in terms of the Scottish market, as many Scots have not been to any island, let alone toured the islands. This is the year for us to fix that.

Rob Gibson: I am interested in how awards such as the *National Geographic*'s can compare the Moray coastline with the coastlines of places such as the Western Isles or Skye.

Given that you are investing in the staycation market, are there any access issues that would be a drawback and prevent people from getting to the islands in the next year that you have identified or that you can bridge?

Dr Cantlay: There are access issues for next year and especially for 2012, which will be a most unusual year because the Olympics will be held right in the peak season. The Western Isles has had a phenomenal year—visitor numbers are up by 40 per cent in places—but there were capacity issues and we had the ferry issue further down the Outer Hebrides. There are capacity issues, but that is a great challenge to have. We are happy to deal with such challenges as they arise. There is plenty of capacity in Scotland if we can spread demand out into the shoulder periods.

The Scottish market represents a particular opportunity. I am talking not just about the 40 per cent of Scots who have never taken a proper holiday in Scotland—that is a terrible statistic—but about the potential that exists for more recreation, given that 2011 is active Scotland year. That could be gentle activity or activity of the full adrenalin variety. It is about getting people out and supporting the tourism industry in 2011. We want Scots to support our people in the tourism industry and we need to spread demand away from those peak seasons where there is the potential for the odd capacity issue to arise. That is the message that we want to get over.

Gavin Brown: I want to return to the marketing figure. The forecast outturn for 2010-11 is £47.5 million and the draft budget indicative resource allocation is £41.78 million. A number of the questions have been about how you do more with less. You have told us about the move to greater online provision, working smarter and activities such as partnering. Is it realistic to assume that that will cover the £6 million difference, or will you do other things to bridge that gap?

Dr Cantlay: Let me introduce Ken Neilson, who is the figures man. He will have a go at that.

Ken Neilson (VisitScotland): We are trying to keep up the marketing spend as a proportion of the total amount of money that we have to spend. As Malcolm Roughead said, we are looking to spend that money somewhat differently. As we have identified, we think that we will maintain the core campaigns that we want to run next year. As things stand, we think that even with that reduced amount of money we will still be able to do the things that we would like to do.

We also want to reduce costs elsewhere to free up moneys for marketing. As you can see from the figures, we are taking about £2 million out of partnership engagement and support services. We are looking at a number of initiatives with other bodies and internally on working smarter by using resource differently from how we have used it in the past.

Gavin Brown: In the past, VisitScotland representatives have told me, in evidence and informally, that if budgets were cut the organisation would try to prioritise marketing and would probably do a bit less of what I think you would define as quality assurance work. Is that the case? Are you doing less on the quality assurance side of things?

Malcolm Roughead: Quite the reverse. Everything must be built on quality foundations. We are not a cheap destination, so we have to ensure that we get more uptake and not less. Putting on my sustainability hat, one thing that we are looking at is mainstreaming the green business tourism scheme, which has about 750 members. That scheme was a world leader a number of years ago, but it has stuttered a little. Instead of having a mainstream quality assurance scheme alongside a parallel green tourism scheme, we would like to mainstream the green scheme and make it part of the QA scheme that people buy into. That in itself would take us way ahead of any other country in the world. No other country does that. If we have 9,000 members in the QA scheme, why do we not have 9,000 green members in it? That is the aspiration. The aim is to be the greenest destination over a period of time and to explain the business benefits of that to businesses. Obviously, an investment is required in their properties and provision, but there are always benefits from doing that—but we must demonstrate that, otherwise we will not win the argument.

Dr Cantlay: There are two phrases that I am sure I used when I visited the committee last time. We must keep in mind that VisitScotland's focus is on doing what others cannot do, particularly what industry cannot do. We must also focus on yield and ensure that we get the highest possible yield from public expenditure in particular. Perhaps Ken Neilson can give members examples of things that we are looking at doing differently, to give them a feel for that.

Ken Neilson: One thing that we will consider is how to make the QA scheme more efficient. It is running at a deficit at the moment, but we are looking to bring that deficit down to zero within the next two years. Of itself, that will generate perhaps £600,000 compared with last year. There are things that we can do differently, using technology and planning.

Initially, one of the main things that we have concentrated on in VisitScotland is property. We moved our old office in Strathpeffer, for example. We also had an office at Cowan house in Inverness. We co-located with HIE and managed to re-let those properties. Last year there was a cost burden to us in that process, but by re-letting those properties we are again cost neutral with them. We have done similar things in Dundee, where we moved the visitor information centre to Discovery Point and moved office staff in with the council. We did something similar in Ayrshire, where staff moved from a private sector-leased facility to work with South Ayrshire Council. We are doing such things again and again in several locations to try to make better use of the property portfolio.

There is one thing that we are looking to do that is perhaps a bit different. We believe that there is a lot of intellectual property activity in the public sector that we can do differently. Over the years, we have developed a robust intranet, document-management and work collaboration SharePoint system, which we are looking to give to other public sector bodies free of charge. We reckon that that would save them £200,000 and perhaps 12 months of development time. We are looking to give it to Historic Scotland in a oner. That will not help our budget, but it will help other people's budgets.

Gavin Brown: VisitScotland gets commercial income, retail income and local authority income. I think that you have projected that the local authority income will drop from around £6 million to £2.75 million for the next financial year. What do you see happening with local authority income over the next three or four years, say?

Malcolm Roughead: I think I said earlier that local authorities are reprofiling their expenditure, primarily away from information centre provision and support to marketing activity. They are doing that by upweighting the national campaigns so that there is more regional content. We predicted that that would happen, although perhaps not as quickly as it is happening, when we considered the information centre strategy, probably around three years ago. We certainly put in place a partnership concept that meant that staff would begin to move, as Ken Neilson said, into shared premises in places such as Elgin, Brechin and Craignure on the Isle of Mull, in which services would be shared with private sector partners or local authorities in their premises. We clearly have to accelerate that approach now, but information provision is still important to us. The footfall is 4.5 million people per annum. The centres offer retail, ticketing and booking revenue streams and the gross revenue is roughly £12 million per annum, but we have not been as efficient in that area as we would like to be and we are looking at it because we see great revenue potential for the future.

13:00

Gavin Brown: Income from local authorities is £2.75 million for the next financial year. Do you think that that will flatline or drop?

Malcolm Roughead: We have looked at the situation from a zero basis and we have budgeted next year for £2.5 million. The current indicators are that it will be about that figure, but local authorities often come to us with various projects throughout the year, so the revenue stream is still flexible and the figure is probably on the low side.

Dr Cantlay: Having been right around the country and visited a lot of local authorities, DMOs and trade groups, I know that different areas are in different positions in their local destination marketing, if I can put it that way. Some local authorities are really focused on supporting the marketing effort and they are having to look in challenging times at things such as information provision—we work closely with them on issues such as toilet provision.

Many local authorities are working better than ever with VisitScotland to ensure that they use the likes of the winter white and perfect day campaigns to get maximum return for their part of the world. That approach is working well. However tough things get in the public sector in the next 12 months, I am hopeful that we will continue to keep up the marketing spend, because it is key. We are working hard with local authority partners to achieve that.

You asked whether the income will flatline. I do not think that it will ever flatline, because local authorities will always want to buy into the campaigns to support their part of the world, which is great.

Gavin Brown: Thank you.

Lewis Macdonald: I am looking for a brief response on one point that caught my eye on the non-Government income. Commercial income is going down £1 million this year, and another £500,000 next year. A brief explanation of that would be helpful.

Malcolm Roughead: That is made up of a number of factors. As I mentioned, we work with a lot of private sector partners. Perhaps the best example I can give is that in the previous financial year we had extensive joint campaigns with the likes of easyJet. You will be aware that this year easyJet has had issues with the brand and Sir Stelios. It actually froze all expenditure, and you are therefore seeing a variance in our revenue. EasyJet spends money through VisitScotland, so if it pulls money out that is reflected on our revenue line.

Lewis Macdonald: Does that have consequences for the kind of work that you can do in promoting Scotland on direct routes to the continent?

Malcolm Roughead: We are not doing as much as we would like. Fortunately, easyJet has resolved its issues with Sir Stelios, and I would like to see the work resume.

Dr Cantlay: A significant supplementary answer is about the world travel market, which is held each year in London. It is basically the coming together of everyone in the business. All the major players, including every major country from around the world, all the airlines and all the hotel companies, are in London in November each year. The mood this year was difficult—almost bleak in some senses. For a global industry, it is a challenging environment.

We have previously been over the difficulties that tourism has faced globally. Scotland has consistently performed better and is seen to be far more resilient. The hope and aspiration has to be that we keep that confidence going. Even the businesses that say, “Actually, we’ve done okay this year,” will tell you that it is tough, because it is—it is a tough environment out there. Scotland is faring better, though, and if we are successful in 2011, I hope that we can achieve the trick of gaining market share. I will not pinpoint our competition, but we have a wonderful opportunity to gain market share.

If 2011 is good, we stand ourselves in great stead to make step changes in growth and to march on as, presumably, the global economy gets better. I hope that by maintaining that confident approach we will be able to entice the likes of easyJet and other big commercial partners to support the Scottish market.

Lewis Macdonald: That brings me neatly to my other question, which is about the domestic market. How do you envisage the spend that you outline in your submission taking on the competition in terms of GB visitors to Scotland and, indeed, the staycation element?

Malcolm Roughead: The first six months of this year showed that visits by those living in Scotland to places around Scotland were up by 16 per cent, whereas the UK market showed an increase of 6 per cent. The staycation effect is there to be seen. We got some research in last night, and all the indications for the UK are that staycation will happen again. We must also remember that staycation is not only a UK phenomenon—it also happens in other markets. The biggest short-term bang for our buck is definitely the domestic market.

Dr Cantlay: I will add a couple of points. Our EventScotland guys have been active in seizing the opportunity of a recession, if I can put it that way. Everyone is aware of the Commonwealth games and the Ryder cup in 2014, but we are trying to seize the opportunity to look at the next generation. For example, we will bid for the world gymnastics championship in 2015, a Tour de France stage in 2017 and many more events. We will try to take the opportunity to exploit our market position in Scotland against the UK.

A point to highlight again is, of course, that the Scottish market itself is in the midst of staycation. Staycation is still seen as a fad, but I am convinced—I am thinking with my national park hat on—that that will not be the case. Scots are going out and trying forms of recreation that they have not tried before and enjoying them at times of year when we want to see people about. I hope that we can encourage real confidence in Scotland's people to get out and enjoy themselves and support the industry, because the trick next year is to fill Scotland. Yes, we want to bring people from the UK and from around the world, but the trick is to encourage Scots to stay, instead of taking a trip abroad for a weekend away or whatever, especially if they stay and have a good time in our cities, out in the countryside or, indeed, out in the Highlands and Islands.

Malcolm Roughead: A piece of research was done this year by Deloitte that indicated that the day-trip market has a value of £6.8 billion in Scotland, so if we can convert some of that into the overnight-stay market, that is the level of potential that exists just within these boundaries.

Stuart McMillan: I am the convener of the Scottish Parliament cross-party group on recreational boating and marine tourism, which I managed to get established just over a year ago. I picked up your "Fish in Scotland" report—I point out that the Scottish Sea Angling Conservation Network is a member of the cross-party group—but I did not notice anything to do with sailing or boating in the report. You will be aware of the report that was jointly published earlier this year by HIE and Scottish Enterprise and the sailing tourism spend of over £100 million. What are you doing, at the moment and looking ahead, to promote sailing a lot more?

Dr Cantlay: That is a great example, because there is no doubt that Scotland is rediscovering its excitement with water and water recreation in all its forms. We see that in the national park. People think of Loch Lomond and the Trossachs national park as being Loch Lomond, but it contains 22 lochs and 50-odd rivers. People are doing things that we just have not seen before, which is tremendous. I say that we have not seen them before, but I mean that we have not seen people using the watercourses in that way for 100 years or so. There is a huge opportunity for us to exploit that. We are heavily involved in that.

Malcolm Roughead: Yes, we are involved in that through EventScotland, for example. We are involved with the tall ships at Inverclyde next year—a grant of £40,000 has been allocated for that. EventScotland also supported the laser radial world championships with £32,500. We work with Sail Scotland, which represents the industry. The growth fund that we have, which was set up to work with DMOs and sectoral interest organisations, provided a grant of £65,000. That was all about raising the awareness of what one can do on and offshore. We have also given another £9,000 from the growth fund to Sail North Scotland marinas association to promote the north of Scotland as a sailing and cruising area. Finally, we produce a sailing guide.

Could more be done? I think that every sector will say yes, but it is also about how we work with the sector to accelerate the activity. There is no doubt that Scotland's waters are seen as world class—I am led to believe that they are very different, because of the tides. As you see more and more product development coming into being—I know that there has been a lot of investment down the west coast—the facilities onshore should match the challenge offshore.

Dr Cantlay: We brought the adventure travel world summit to Aviemore in October. That was a real coup for two reasons: first, every major player in adventure travel and tourism from the entire world was in Scotland and it was great to have them here; and secondly, it was a stimulus to our industry, which is growing very fast. It is an area that requires great professionalism. I think that we will see it being a growth industry over the next few years.

Stuart McMillan: One of the points that was made earlier was about focusing on areas where there will be high yield. The Deloitte report referred to more than £6 billion of day activities and trying to turn them into overnight stays. I recently went to the British Marine Federation's annual general meeting. All the business folk who were there had an opportunity to explain what was going on in their field and how successful it was. A very positive story came out of the AGM. The yield from some of the businesses will be very high. I am keen to get the point across to you that that area is positive and is growing. Not everyone will want to spend a night on their vessel; they want to go and stay overnight, but there is sometimes a shortage of good-quality facilities around the country.

You mentioned working with industry—you mentioned Highland Spring and easyJet. What about other non-traditional industries that have a large international footprint and which bring people into the country for business? What type of activities do you do with them?

Dr Cantlay: You want to do business tourism. You might note that one of the coups that we achieved this year was to award the silver thistle award to Sir Moir Lockhead. The interesting thing about that was that a number of people said, "Is First Group tourism?" We are currently on a journey to appreciate the size and scale of the day-trip business, which was the point that you made.

Sir Moir Lockhead is a board member of VisitBritain. We do not see a lot of him in Scotland, to be honest, but he is a core player in building our industry here. We are very mindful of that, and we have created a specific remit to work with VisitBritain to capture the larger players in Scotland of whom we do not see an awful lot.

Malcolm Roughead will say a bit about business tourism.

13:15

Malcolm Roughead: Before I get on to that, I would say that the most fertile area for partners is food and drink. Many of the brands with which we work are internationally recognised, but they certainly add to the Scotland story. We work with companies across the spectrum—for example, we work with Barrs Irn-Bru in Russia, and we are engaged in on-going activity with the Jura whisky brand that currently involves a photography competition. We have also worked with Glenfiddich, Glenmorangie and Johnnie Walker—the list is endless. The interesting thing is that when I started this job around nine years ago, none of those companies would have partnered with VisitScotland. We have reached the point at which they are now prepared to work with us because they see the benefits that they can get. That shows how far the organisation has come in its own right.

With regard to business tourism, we work with many partners across the spectrum. Our mantra is that tourism is everyone's business: it touches every facet of Scottish society, it is tangible and visible, and people can benefit from it.

Only yesterday I was talking about the benefits of tourism for health and education. People do not quite get it, but if we get people out and being active, it gets them off their sofas, and the kids are healthier. We try to ensure that everyone sees the relevance of tourism for their own business. I could go on forever about the list of partners with whom we work, such as the young entrepreneur who makes SuperJam. Believe it or not, he has been a big partner of ours.

We work on the principle of a day in the life. People wake up in the morning and go to bed at night, and there are multiple touch points during the day. We try to work out which partners will touch them, from Kellogg's cornflakes to pints of milk from Robert Wiseman Dairies.

Stuart McMillan: My final question is on the budget line for local authorities, which Gavin Brown mentioned earlier, and the implications for local destination marketing organisations.

Discover Inverclyde was created in the past couple of years, mainly by the private sector, and this year the local authority, Inverclyde Council, joined in. Inverclyde has not really been at the forefront of tourism in recent years, although people went down to Gourock in the past.

As the funding for local authorities will be reduced, what guarantees or assistance can you provide to a new organisation such as Discover Inverclyde to ensure that it can promote its product and market the Inverclyde area to the wider population?

Dr Cantlay: I have not been to see the DMO that you mention, but I have been out visiting trade groups and DMOs during the past six months. I stress that VisitScotland likes DMOs: industry taking control under its own auspices is exactly the way that we have to go. At the last count there were 286 DMOs and trade groups, which is an awful lot, but it is clear that consolidation is under way.

New trade groups often go through the journey of deciding what they want to do in terms of destination management and marketing, and most significantly in terms of what is not just promotion but true marketing, which brings people to their part of Scotland.

Our focus has been to support the best high-yield marketing activity. We have used a tool called the growth fund to do that, and we are busy bidding for extra money from Europe to set up the next growth fund, which will enable us to continue to do that. While DMOs are coming forward with good marketing activity that deserves to be supported, that will be our primary focus.

Ken Neilson: I was down in Inverclyde recently and I met the chief executive of Inverclyde Council. We discussed the tall ships race, which is a specific thing that we are funding, but our staff are also helping the area tourism partnership to write a plan for where tourism could go in the area.

Malcolm Roughead: That is key, because our assistance is not just about funding. It is also about helping people to shape things. If we do not have the expertise, we will not offer to help, but if we do—and I believe that we do in some areas—we will work in partnership so that there is clear alignment. Ideally, we would like to use the growth fund to get people aligned into some common goal, whatever that might be. It might be one of the themed years, such as active Scotland or Scottish food and drink. At least we will then have everyone going in the same direction. Part of the problem in the past has been that we are a diverse nation. That is a great strength, but it is also a great challenge. Unless people are corralled and moved in one direction, we do not get the sum-of-the-parts analogy. It is only by working together that we will get the maximum benefit from the investment.

The Convener: Can I check on some of the figures that you mentioned? I think you said at the beginning that your budget is being reduced by 7.5 per cent. I am not sure that that is the right figure. The indication from your figures is that the cash amount is being reduced by £7.5 million, which is nearer 12 per cent. Is that correct?

Ken Neilson: It is quite difficult to make comparisons year on year because of the amount of project funding that comes through the organisation, so what we looked at is the core element that is coming through. We have been fortunate, because in the past week £1 million-worth of non-cash funding has been allocated to us, and that is included in that figure. It does make the figure a bit higher as a comparator, but based on the numbers that came forward in the spending review, the figure is 7.5 per cent.

The Convener: That does not seem to match up with the figures that you gave us in your submission. Perhaps you could give us the updated figures if there has been a change since you provided your submission.

Ken Neilson: We can do that.

The Convener: That will be helpful. As there are no further questions, I thank you for coming along.

Dr Cantlay: I hope to see everyone skiing over the weekend. Fingers crossed.

The Convener: Indeed. I noted your comment at the beginning, which saves me from making a remark about winter white having to be cancelled because of the winter white-out. However, I hope that people recognise that Scotland is now an all-year-round skiing venue. Do come and ski and snowboard in Scotland.

Before we conclude the public part of the meeting, I say that it is regrettable that the committee has still not received the level 4 figures that we requested. I wrote to the Cabinet Secretary for Finance and Sustainable Growth again last week to ask for those, but they are still not to hand. Does the committee agree that I should draw the matter to the attention of the Finance Committee so that it can take it up as part of its overall budget deliberations? It is clearly not helpful that we do not know, for example, what the budget line for energy is, because we have not received the level 4 figures.

Members *indicated agreement.*

Ms Alexander: I endorse that. We were told that, after the budget was published, we would have the opportunity to scrutinise it. The truth is that the committee has now completed its scrutiny, apart from talking to the minister, in the absence of the figures that would allow us to undertake scrutiny. It is just shocking. I do not know whether the problem pertains to other committees as well. It would be worth while to discover that. There is no point in bringing in senior people to talk to us if we are not in possession of the figures weeks after the budget has been published.

The Convener: I cannot say with any certainty, but my understanding is that level 4 figures are not available to any committee at this stage. I do not know whether that is actually the case or not, but it is my understanding.

Ms Alexander: It also fatally undermines the budget process if the committees are unable to do their job. The purpose of budget scrutiny is meant to be for committees to lodge amendments to the budget. That is the primary purpose of committee consideration. It is simply impossible to fulfil that requirement if we do not have the figures.

The Convener: Thank you for that, Wendy. I will write to the convener of the Finance Committee to draw our concerns on the matter to his attention.

That concludes the meeting. Thank you.

Meeting closed at 13:25.

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