



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 19 January 2011

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ECONOMY, ENERGY AND TOURISM COMMITTEE
2nd Meeting 2011, 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)

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Alex Johnstone (North East Scotland) (Con)

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

David Whittton (Strathkelvin and Bearsden) (Lab)

*attended

THE FOLLOWING GAVE EVIDENCE:

Crawford Gillies (Scottish Enterprise)

Alex Paterson (Highlands and Islands Enterprise)

William Roe (Highlands and Islands Enterprise)

Lena Wilson (Scottish Enterprise)

CLERK TO THE COMMITTEE

Stephen Imrie

LOCATION

Committee Room 5

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 19 January 2011

[The Convener *opened the meeting at 09:30*]

Enterprise Network Inquiry

The Convener (Iain Smith): Good morning, everyone and welcome to the second meeting of the Economy, Energy and Tourism Committee in 2011. We have two items on today's agenda. The first item is our enterprise network review inquiry. We have two panels this morning. I welcome first from Scottish Enterprise, Lena Wilson, the chief executive, and Crawford Gillies, the chair. I invite the witnesses to make opening remarks, then we will go to questions.

Crawford Gillies (Scottish Enterprise): Thank you, convener, and good morning. I am delighted to be with the committee once again.

As you might expect, we have been following the inquiry with great interest in recent weeks and months. It has produced some healthy debate and many opinions about how best to support the Scottish economy.

This week's media headlines around our support for urban regeneration companies have sparked some further debate about the priorities that we support. The fact is that we remain committed to the work of the URCs. Together with the Scottish Government, we have been able to allocate a combined total of over £25 million to the URCs for 2011-12, despite what has been a very challenging funding environment. Some £18 million of that has been earmarked for the Clyde gateway, so that we can make the most of the 2014 Commonwealth games. Although Lena Wilson and I are more than happy to talk about that in more detail, I hope that it will not deflect interest away from the wider issues that have been raised throughout the inquiry.

In today's session, I would like to give you our perspective on what is required to increase and accelerate the transformation of Scotland's economy and the role of Scottish Enterprise and others in achieving that. I believe that much has been achieved and that Scotland is in a better place because of the collective investment in the economy and the success of the review of the enterprise networks. However, more is needed. Scotland needs greater ambition for growth, more alignment of partners behind that ambition and more investment in the economy.

Our written submission outlines the changes that have been made to our agency in recent years and the positive impact that those have had in creating a leaner and more focused organisation.

I will let Lena talk through our approach to economic development and how we identify the priorities on which we focus. First, though, I want to address briefly the issue of achieving a radical transformation of Scotland's economy.

The first thing to say is that when you look at Scotland's economy today and compare it with the 1980s and 1990s, you see that there has been a transformation. Scotland has adapted to changes in the global economy by shifting away from our industrial and heavy-manufacturing base and it has successfully built a knowledge-based economy with world-leading strengths across a number of sectors. Other parts of the United Kingdom, which have not adapted as well as we have, have fared much worse.

That said, we know that there continues to be a gap between the growth rate of Scotland's economy and those of the economies of the UK or our European competitors. To reiterate something that I said at the time of my appointment some two years ago, I do not believe that there is a magic bullet that will help to address that.

The committee has heard from other commentators in the inquiry that there needs to be a greater focus on equity investment, that we need to export more or that we need to innovate more. The reality is that Scotland needs to do all three, with a particular focus on the relatively small number of companies that show significant potential for growth and increased employment. In addition to working with them directly, we also need to build the sectors within which they operate and continue to improve the business environment. That is Scottish Enterprise's focus as we deliver locally, nationally and internationally in an integrated way.

On having a transformational impact, perhaps the biggest lesson that we can learn is from our Scandinavian neighbours. Countries such as Finland have been able to transform their economies with a heavy focus on innovation, but I suggest that the real enablers of their growth have been the political will of, and support from, their national Governments and the collaboration between all public agencies behind a single strategy and approach.

We are working on that in Scotland and have seen some real progress over the past year, particularly in developing joint plans for some of the country's key sectors. I point to success in sectors as diverse as food and drink, and renewables. The question is this: how can we all

show the leadership and ambition to work together increasingly and collectively to seek the necessary levels of investment across the public and private sectors to achieve greater economic growth? We have not stimulated enough discussion on that front and it needs to be considered if we are really to transform Scotland's economy further.

I will comment on one area that has come under particular scrutiny in the inquiry: the role of SE's board. I stress the board's strength and independence. It is a strong board, comprising members who have significant international and local business experience, as well as members with a broad range of other experience, from academia to trade unions. It is also an independent board. We have a regular, robust and frank dialogue with Scottish Government colleagues and the Cabinet Secretary for Finance and Sustainable Growth. Although we may not always have received what we might have liked, we have been able to make a strong case for what we need within the wider resource constraints. Clearly, we have huge ambition and could invest considerably greater levels of resources, but we are also realistic. I am sure that the committee would not expect me to rehearse in public the detail of those discussions.

I hand over to Lena.

Lena Wilson (Scottish Enterprise): Thank you, Crawford. Good morning, convener, members and clerks.

As Crawford pointed out, we have observed the evidence-taking sessions closely. There is an advantage in coming at the end of them. Perhaps we are making slightly longer opening remarks than we might have done, but that will be a useful starting point for the discussion.

I have been struck that the majority of the debate at the committee—and in the media on the committee's inquiry—has been about the most effective model for business support in Scotland. Although an effective and efficient business support model is essential, it is not the only driver of economic growth.

Our approach to Scotland's economic development is based on a deep understanding of the economy. There is now in Scotland probably the strongest evidence base that we have had in the 21 years I have worked in economic development and, indeed, anywhere in the world. We have put a great deal of effort into analysing the challenges and opportunities that Scotland faces and by working with others we have gained a deep understanding of Scotland's global comparative competitive advantage, how we can exploit it and—more important—what that means locally.

The move towards a low-carbon Scotland opens up terrific opportunities in, for instance, Fife energy park. Even in a global competitive environment, all economic development happens locally. When sites such as Fife energy park become major sources of employment, that takes the global competitive advantage through to local areas.

We have also evaluated all the impact of our activities to identify the types of support that have the biggest impact on the companies with which we work and, indeed, the wider economy. From what we know, our evidence base is among the best in the world. Regions and countries from Northern Ireland to New Zealand come to Scotland to find out how we do economic development.

We are also fortunate to have an excellent non-executive board and about 100 business leaders in our industry advisory boards and regional advisory boards. We also constantly learn from hundreds of global Scots. Their views give us the evidence to help to drive our approach and the delivery of economic development in Scotland.

From all that experience, we know that Scotland needs to address five key priorities. First, we need to improve the business environment in Scotland. As I have highlighted, we are an economic development agency, and not merely a business support agency. Our infrastructure investment and all our work with Scotland's key sectors allow us to build on Scotland's existing capabilities and strengths and to make the country a more attractive location so that we can attract investment and talent to support companies to grow. Supporting company growth is the key aspect and it requires continued investment from SE and many others working in partnership.

The national renewables infrastructure fund—NRIF—which is led by Scottish Enterprise, and the corresponding strategy demonstrate what can be achieved. They will play a significant part in helping Scotland to respond to the huge opportunities in offshore wind and renewables.

Secondly and similarly, Scotland needs more investment capital; the committee has discussed the issue in recent weeks. A risk-capital market in Scotland is increasing at a time when it is declining in other parts of the United Kingdom. That is largely down to the success of Scottish Enterprise co-investment funds. The Scottish Investment Bank will allow us to continue the success of those funds, and the introduction of the new Scottish loan fund will provide debt finance for ambitious companies.

The supply of investment capital will be increasingly stimulated if there is a strong demand. Thirdly, therefore, Scotland needs more companies to internationalise. Companies that

operate internationally are much more productive and innovative and are more likely to secure finance. Helping more companies to export is as much about developing ambition and leadership in the Scottish business base as it is about providing direct financial assistance. What we hear from companies day in and day out is that we add the most value through the connections that we make. Initiatives such as smart exporter, globalscot and Scottish Development International's trade missions are vital.

Fourthly, there needs to be more innovation in the Scottish economy. Business expenditure on research and development is an issue for Scotland, which affects overall productivity. However, independent research shows that targeted R and D grants work. Two thirds of the R and D projects in companies that we support would not happen in Scotland without those grants and a further 20 per cent would go ahead only on a much-reduced scale. We are helping to build Scotland's wider innovation system, from improving links with universities to delivering support to thousands of Scottish SMEs.

Finally, to bring all that together, Scotland needs more growth companies. Throughout the committee's inquiry there has been much discussion about why Scottish Enterprise focuses on growth companies. We need to be clear about the reason for public sector support to businesses. Working together, scarce public resources should be targeted to help to grow the economy, so that things happen bigger, better or faster than would have been the case without the work of a publicly funded economic development agency.

We should not duplicate the private sector, nor should we crowd it out, but we must stimulate the market to respond. We should not do things that would have happened without us but we must stimulate companies to be ambitious for themselves and for Scotland. We should not pick winners but we should certainly back winners. We need to concentrate on helping the economy to grow.

In our submission we set out why we work with the companies with which we work. Independent research shows that fewer than 1,000 companies in Scotland create more than half of all new jobs. A very small proportion of companies have such capacity for growth and employment. By supporting those companies to grow and by growing the number of such companies, we will achieve the biggest impact for Scotland.

That requires an integrated business support model, which is highly differentiated, to support companies at different stages of their growth cycle. The greater the growth potential, the greater the support—it is as simple as that. Under the existing model, companies are accessing that

support from SE or the business gateway, depending on their circumstances. Not all companies need to be supported at every stage of their growth and their journey.

The evidence so far suggests that the model is working, although of course there is room for improvement. Wholesale reform to business support models would divert us from the issues that are affecting Scotland's economy.

A focus on the five areas that I have highlighted and working alongside others allows SE—Scotland's national economic development agency—to have the biggest impact. The independent evaluations that I mentioned show that as a result of one year's investment by SE the Scottish economy grows by about £2 billion over a 10-year period. Some 40,000 jobs that have been created in the Scottish economy during the past decade would not have been created without Scottish Enterprise. Half of all private sector employment in our rural areas is in companies that are account managed.

The numbers speak for themselves: we make a significant difference. I accept that there is not an exact science in that regard, as the committee has noted, but our approach is robust and transparent. It has been independently validated by an expert in the field and is respected by peers, from the World Bank to the European Association of Regional Development Agencies.

Perhaps more important is the feedback that we get from the companies with which we work. Since I was appointed chief executive I have visited more than 70 companies in Scotland and more than 30 companies world wide. I have met hundreds more at events. Time and again, people tell me that SE has made a difference to their business and that they would not be where they are today without such support. That is the biggest endorsement of our work that we can get.

09:45

In summary, we are very clear on the key questions that need to be asked in order to improve the performance of the Scottish economy and we are very clear on how to address them. We are also very clear about the actions that need to be taken. The required transformation is not going to be achieved by continual change of the institutional landscape; rather, as Crawford Gillies said, we need to make what we have work much better. We need greater ambition, much greater investment, greater alignment and a much stronger sense that we are all in this together.

The Convener: I thank Lena Wilson and Crawford Gillies for those opening remarks. Let us explore the fairly fundamental question that you were hinting at towards the end of your comments,

Lena. How do you demonstrate that the enterprise agencies—Scottish Enterprise, in particular—make a difference to growth in the economy? Can you show that the growth would not have happened, if Scottish Enterprise had not been there?

Lena Wilson: We can, indeed. As I said, for the first time in my career in economic development anywhere in the world, we have robust evidence of that, which has been validated independently. We can, with confidence and with hand on heart, conservatively say that the net effect on the Scottish economy of the activities of Scottish Enterprise has been an increase of 40,000 jobs over the past decade. We can, with confidence, also say that we get a leverage rate of £8 for every £1. So, for the pounds that we invest in one year, in the 10 years following that we will see £2 billion generated in the Scottish economy. That is not just strong evidence; it is an exceptionally strong commercial return.

We estimate that, 10 years from now, we will have seen a minimum additional 40,000 jobs. However, if we make the kind of investment that we want to make just in offshore renewables, there will be 28,000 jobs on top of that. That will be 68,000 jobs in the next 10 years compared to 40,000 in the past 10 years.

There are many opinions on the matter, and everyone is entitled to an opinion. However, I believe that we have strong and robust evidence that we would be delighted to have challenged. So far, however, no one has been able to come up with an alternative model.

The Convener: Let us look at it from a slightly different angle. Over the past few years, there has been a real-terms reduction in the scale of Scottish Enterprise. If you are arguing that every £1 that is invested gives you an £8 return, how damaging is that real-terms reduction in your spending power to your ability to grow Scotland's economy?

Crawford Gillies: Let me have the first crack at that, and Lena Wilson can then come in.

We are still able to have a significant impact. If we had more money, could we have a greater impact? The answer is definitely yes. We have clear sector strategies and if we could spend more we could accelerate their implementation. In the renewables sector, there is currently a focus on offshore wind, but we could do a lot more on biomass, tidal and clean technology. We could accelerate initiatives in the life sciences and the entry into emerging countries such as India and China, and we could increase internationalisation. There is quite a lot that we could do with more resources. Do I think that we are delivering and

having an impact with what we have got? The answer is definitely yes.

The Convener: In that respect, is Scottish Enterprise's budget now sufficient for you to be able to contribute to the transformational change in Scotland's economy, or are you marking time and ensuring that we do not get any worse because the budget has been cut?

Lena Wilson: We are certainly not marking time, but you are right in saying that we have to run even faster to stand still in difficult economic times. That has been the case in the past couple of years, when companies have faced even more challenges. Sometimes, it has been about helping companies just to survive in order to grow.

This year, we had between £50 million and £60 million of actual opportunities, either from bids from our own operational units or from our partners, that we did not support because of this year's allocation. So, there are other opportunities that we could pursue. In offshore wind, for example, we have made a fantastic commitment of £70 million to the port infrastructure fund, but there are other opportunities in wave, tidal and biomass for which we would look to get the same scale of investment. There are opportunity costs, but at all times we prioritise on the basis of what the evidence shows will give Scotland the greatest economic return.

At this stage, Scottish Enterprise's work comes down to prioritising the absolute priorities. We are at a stage where there is nothing that we are doing that we can easily tell you we should not be doing. I hope that that answers the question.

Rob Gibson (Highlands and Islands) (SNP): John McLaren gave the committee evidence that suggested that the statistics that we use for measuring our economy are completely inadequate. Were Scotland to be independent, they would have to be revised and improved rapidly. You base the evidence for your effectiveness on many such statistics.

Lena Wilson: I am sorry, Rob—what kind of statistics?

Rob Gibson: The statistics for Scotland's economic performance.

Lena Wilson: We base our evidence on all the available statistics that we can get our hands on. I think John McLaren said that he would take them with a pinch of salt. That is his opinion, to which he is entitled. It is important to have evidence that is based on all the statistics that are available, but I do not believe that they are fundamentally flawed and would therefore lead us to come to the wrong conclusion.

If the ratio for the return on investment turns out to be 1:7, not 1:8, that is still a large magnitude.

Even if there is a margin of error, the ratio is still significant.

Rob Gibson: So the significant impact of Scottish Enterprise in tackling the circumstances of a tight economy lies in prioritising the priorities, as you put it. Are you saying that the small number of growth firms get the vast amount of your attention such that, although you talk about small companies and other companies being account managed, very little attention is actually given to whole sectors of the economy?

Lena Wilson: Only a third of all Scottish companies actually employ anybody. In any one year, we work very closely with 7,000 to 8,000 such companies, of which we account manage 2,000 thoroughly and intensively. We assisted a further 1,000 companies through the business gateway.

Only 2 per cent of Scottish companies employ more than 50 people. The market of companies is much smaller than people realise. Scottish Enterprise covers a great many of those potential companies. Through the companies that we support, we work with over half of private sector employment in Scotland.

Crawford Gillies: It would be fundamentally wrong for us to provide a universal service to all Scottish companies irrespective of the potential of those companies and therefore of the return that those companies might get on our investment. That is a fundamental starting point.

Rob Gibson: The two thirds of companies that are sole-operator companies are those that we would expect to make 100 per cent growth if they employed one other person.

Lena Wilson: We need to ask what would be the impact of that on the economy.

Rob Gibson: The answer would depend on whether that allowed the company to take off. You are bringing these facts to my attention. I think that there must be some parts of the country that get very little attention, including rural areas, where many of the very small businesses are located.

Lena Wilson: Twenty per cent of all the companies that we support are in rural areas—a full fifth of all the companies that we work with intensively. Sole traders, under the model that we now have, are serviced by the business gateway for business advice and for support for growth.

Rob Gibson: Has that been successful for very small businesses?

Lena Wilson: The indications are that the business gateway—we are a partner in it, not a deliverer—is maintaining all that has been asked of it, although it is still early days. We get more than 150 referrals from the business gateway into

Scottish Enterprise every year, and we accept about 85 per cent of them. There is a good flow-through from smaller companies into Scottish Enterprise account-managed services.

Rob Gibson: I am trying to get an overall picture before asking you what expectations Scotland should have of how much enterprise agencies can achieve.

Lena Wilson: A great deal is achieved. There are two issues. We should ensure that we work with every single company that has the ambition, capacity and capability to grow, particularly internationally. That number should not be static; companies will come and go from it every year. We want to increase penetration, but we also want to increase the number of companies. I hope to see Scottish Enterprise dealing with more and more companies, not because we are just filling in the numbers, but because we want to encourage more companies to grow and go into international markets. We are not hampered by resources in that regard. We would deflect any necessary resources to support more growing Scottish companies.

Rob Gibson: In that case, how do you respond to the remarks that Robert Crawford made last week about the need to move towards using your funding for more loans and equity stakes, because it is clear that it is hard to measure the benefits of grants?

Crawford Gillies: That was a suggestion about equity investment. Others who have come before the committee have suggested that the answer is X or Y.

Rob Gibson: Robert Crawford said that loans and equity would be better than grants, not X or Y.

Crawford Gillies: The suggestion was that there should be a greater focus on that. Other people who have come before the committee have suggested that there should be a greater focus on something else. It is important to have an integrated model that addresses each of the different levers that we have.

I will use the renewables sector as an example. What we are doing across the renewables sector stretches from equity investment in companies such as Aquamarine Power Ltd, Pelamis Wave Power Ltd and others with which members will be well familiar; to innovation support for the international technology and renewable energy zone in Glasgow; to foreign direct investment support to bring in Mitsubishi to work with Artemis Intelligent Power Ltd and invest a significant amount on the back of that.

There is sectoral support for the building supply chain, business environment investment through the national renewables infrastructure fund, and

regional selective assistance support for Burntisland Fabrications Ltd in Fife. A series of initiatives are driving forward the sector. To focus on any one of those initiatives to the exclusion of others would sub-optimize the overall impact.

Rob Gibson: Do you think that you might get a better growth response if ambitious people had loans and equity rather than grants, which have often been given in the past because we have had more static industries?

Lena Wilson: You are absolutely right. One hundred per cent subsidies never work, and they do not exist in Scotland. I agree that, in general, companies have to have skin in the game. On that basis, I would categorise the work that we do as sharing risk. We would rarely provide funding over 50 per cent for something. In all the work that we do with companies, at least 50 per cent of the investment will come from them. There is not a subsidy culture. That would never work.

There is absolutely no magic bullet. We would like more investment finance in Scotland, but that would not in itself be an adequate economic development model for Scotland. There must be a balance of innovation, support and advice. I watched Robert Crawford giving evidence, and I think that he said that. However, he has been out of Scotland for seven or eight years, and things have moved on markedly. In his evidence, he said that grants do not work, but I think that he also contradicted that. Targeted grants do work. Amazon's project to create 950 jobs for Scotland that was announced last week would not have happened without an innovative form of grants in respect of regional selective assistance and a property grant from Scottish Enterprise, which came to no more than 10 per cent of the overall cost of the building. That is not a subsidy in any way.

Free-for-all grants do not work; targeted grants absolutely work. Forty per cent of all inward investors said that they would never even have considered Scotland had a targeted grant not been available. We have even stronger evidence on the R and D side: some £70 million to £80 million in R and D would not have happened without an R and D grant.

I refute strongly the claim that grants do not work, because targeted grants do.

10:00

Marilyn Livingstone (Kirkcaldy) (Lab): I will follow on from what my colleague Rob Gibson asked about equity investment and the need for more investment funding. I have raised BiFab as an example. It has had RSA investment and has doubled in size, but John Robertson of the company says exactly what Lena Wilson is saying:

long-term investment is needed if companies with ambition are to be able to do R and D for what is needed in the future. How can Scottish Enterprise help companies such as BiFab—and the whole renewables sector—look forward 10 years and move forward over that period? Where will that funding and support come from?

Lena Wilson: There are a couple of issues that affect BiFab. Indeed, my executive team was talking about such companies only yesterday. I know the company well.

The kind of growth that BiFab is talking about—the creation of 400 jobs for Fife, which is very important—is about the company getting a good mix of public sector intervention. The public sector needs to help BiFab internationally and with investment capital, which we have done. It also needs to help the company with some of its land remediation through Fife energy park and its property deals.

However, BiFab is in an industry in which the timescales are long. Investment in offshore wind, wave and tidal energy—the space that BiFab plays in—is still an unknown quantity. That is why we have undertaken initiatives such as last year's low-carbon investment conference in Scotland, which was the world's first. We are asking how we can invest in low-carbon technologies when the timescales are so long. It is important to lead the thinking on that.

Without declaring anything that is commercially confidential, I can say that BiFab is a terrific example of a mix of many different types of public sector economic development support, not only investment capital, having to come into play.

Marilyn Livingstone: I used BiFab as an example because it is based in my constituency, but the same question is being asked across the renewables sector. Are you looking at what other countries are doing? We are hearing that there is support for renewables companies from other home countries. Are we matching that? Are we able to compete and to keep our companies at the forefront of that dynamic industry?

Lena Wilson: Sometimes the investment capital comes from the financial community, but sometimes it comes from large, multinational companies. For example, Mitsubishi's recent acquisition of one of Scotland's leading technology companies in wave and tidal energy allows Mitsubishi to have a foothold in Scotland, invest £100 million in R and D and create a couple of hundred jobs. It ensures that we not only attract foreign investment but help some Scottish companies to stay in Scotland.

As well as looking for banking finance, we use all the contacts and networks that we have through Scottish Development International to

connect smaller Scottish companies with global companies in the form of joint ventures and acquisition, which enables them to receive substantial investment to grow that they could not achieve at their own hand.

Marilyn Livingstone: I would like somebody to track what we are doing versus what our competitors are doing. I have never had an answer to my questions about that. There is anecdotal evidence that other European companies are getting more support, which is giving them the edge. Is that actually the case?

Lena Wilson: On renewables specifically?

Marilyn Livingstone: Yes.

Lena Wilson: It would be easy to get that information for you; I will ensure that we do that. The evidence will tell you clearly that Scotland is not falling behind in that regard.

Marilyn Livingstone: Okay. It would be good to have the details of that.

Your submission says that, since the restructuring of Scottish Enterprise and the move of local economic development and local regeneration to councils, it is difficult and

“unrealistic to draw a specific comparison between current investment levels and those of the past.”

What impact has the move from Scottish Enterprise at a local level to local government had on local economic development and local regeneration?

Lena Wilson: As regards local economic development, if I pick two areas of Scotland—Fife, which your constituency is in, and Glasgow—we are working with significantly more account-managed businesses under the present structure than we were in 2007. In Fife, we are working with about 40 per cent more businesses than we were when we had a local enterprise company, so our work in growing businesses has increased significantly.

As regards regeneration, all local regeneration was transferred to local authorities, with national projects remaining the domain of Scottish Enterprise. Some of the benefits we will see over time, but we have been able to reduce our number of senior staff yet increase the number of businesses that we work with. That is because we no longer have false administrative geographies, whereby people can work only in one area of Scotland. In other words, we are using the talents of all our specialist advisers and account managers all over Scotland. All our numbers for company support have increased since the restructuring.

Marilyn Livingstone: It is a difficult question for you to answer, but do you believe that the same

support is available now that part of the support function has moved to local authorities? You say that you are working together and that the provision of public sector support needs to be joined up. Can you measure the overall impact? You can measure the impact as far as your organisation is concerned. We have heard a lot from both of you about the need for a joined-up approach. Do you know what impact the changes have had on overall provision rather than on just what you provide?

Lena Wilson: There is undoubtedly an issue in Scotland, in that each local authority has a different model for economic development. We meet all the local authority chief executives one to one, and I have talked to them about that. The Scottish local authorities economic development group, which is the local economic development part of the local authority network, is certainly picking up the issue. Some of that is in development. Some local authorities have no prior experience of economic development and are building it up, while others have long-standing economic development teams.

To return to the example of your constituency, we would not have been able to deliver the Amazon project that was announced last week without the work of Robin Presswood and his team at Fife Council. It has a very strong economic development department, but there are many other examples. In answer to your question about whether there has been an increase or a decrease in support, I cannot provide a specific figure on the overall effect, but I see no evidence that the change has been detrimental.

Christopher Harvie (Mid Scotland and Fife) (SNP): The various points that I want to make are based on analysis of your key priorities compared with the widest possible analysis of the general impact of renewables. I wonder whether a similar dialogue would have taken place in the 1960s on the marginal role that North Sea oil was going to play in the Scottish economy. I spent 28 years in Baden-Württemberg in Germany, which is the leading manufacturing region in the whole of Europe. There, the proportion of gross domestic product that metal bashing—high-tech, ecological metal bashing—accounts for has gone up from 30 to 35 per cent over the past decade.

What should our priorities be if we pursue not just competitive advantage but co-operative advantage? We have things in Scotland that European industrial nations need. We have the wildest weather that is likely to be encountered anywhere on the planet, which means that at least 64GW of energy is there for the taking. How do we explore co-operation with the industrial powers—the wise virgins of European industry, one might say—that maintained their manufacturing

capability, but which now need non-nuclear power for it? That divides into four further areas: reliable infrastructure; internationalised trade, which means that we can intervene and steer it; a retail banking system that is truly co-operative and not the uprooted molar that remains of the Scottish investment banking sector; and training.

I will mention training briefly before handing over to the witnesses. When I went to the ministry of education in Stuttgart about six months ago, I was told that that region is supposed to train 50 per cent of people in technical colleges and 50 per cent on the shop floor, but that in fact it trains 75 per cent on the shop floor—the shops are of course Daimler-Benz, Bosch and so on—and 25 per cent in technical colleges. That area already has the investment in an industrialised sector that will produce the trained people who are needed.

We always talk about 28,000 or 30,000 jobs in renewables, which means training 28,000 or 30,000 people in renewables. That comes in at £55,000 per person, in comparison with £6,000 per person for a warehousing or call centre job. Are we budgeting for that training? We must budget for it.

Scottish Enterprise must take largely a European collaborative role—we have something to sell and people to sell it to. That requires new departures in your strategy, which is interesting but which centres on developing Scottish firms and not an overall strategy. The gains from an overall strategy could be enormous if we follow them up—they could be as big as those from North Sea oil, because the stuff will never disappear. The Government and your organisation need to accentuate that strategic view in the next 10 years—events could happen very fast. That might be more of a statement than a question, but it is based on experience of two different industrial structures in Europe.

Crawford Gillies: I am tempted to say, “Tick—yes, I agree.” What you said was more of a statement than a question, but I will agree with a few points that lie behind what you talked about. We can learn from the significantly higher level of ambition in the region to which you referred.

On collaboration and co-operation, Lena Wilson and I talked about co-operation in Scotland, within public agencies and with the private sector to share risk and so on. That is not enough—we need to think internationally. Lena Wilson gave the example of Mitsubishi investing in Artemis Intelligent Power and investing £100 million in R and D in Scotland. That not only has a local economic impact here, but links the Scottish economy into what is happening elsewhere. That is just one example; there are others. Do we need more of that? Yes—absolutely.

Lena Wilson: A significant amount of co-operation takes place with emerging nations. China has embarked in a wholesale way on involvement with Scotland’s vocational education system, with which strong agreements have been made. I visited India this year. Glasgow Caledonian University is training podiatry clinicians all over India to deal with the spread of diabetes in India. That also brings significant commercial benefit back to Scotland. There are lots more such examples—for instance, the University of Edinburgh is collaborating with Peking University on stem cells. Collaboration is occurring from the high level to vocational training. For example, Scotland’s colleges are training aeronautical engineers for some middle-east air forces. A great deal of that work is taking place.

We have institutional collaboration with organisations such as the World Bank, the International Monetary Fund and the European Association of Development Agencies. We are doing all that we can to capture as much business as possible for Scottish companies in World Bank aid-funded projects. That is about Scotland’s capability and not just Scottish companies’ capability.

Christopher Harvie asserted that the training costs were £55,000 versus £6,000. One major attraction of the 28,000 jobs in offshore renewables is that we have many of the skills for that work today. For example, in Scotland’s engineering base, many people would not need £50,000-worth of training to convert their skills to those that they would need to be an engineer in renewables. We are not starting from scratch. We are building on our already strong engineering base and it is a natural migration of skills. In absolute terms, it will not cost £50,000 to train each of those 28,000 people.

10:15

Christopher Harvie: That was the statement that I got from a representative of Siemens in Scotland.

Lena Wilson: If we were starting from scratch, that might be the case, but we will not be starting from scratch—that is why it is so exciting.

Christopher Harvie: I have two little points to make. First, as well as renewables, carbon capture and storage must be factored in as a transitional technology. There is 15 years’ worth of space under the North Sea that the CO₂ can be stuffed into, and we must have a policy for that because we have only a limited timeframe.

Secondly, there is the business that has not got into any of our plans at all. What do we do with the opening of the north-east passage from China over the north of Siberia into the North Sea?

People such as Alf Baird from Edinburgh Napier University have already been proposing plans about that. The route is 7,000km shorter than the route that goes via Suez, and will be open for about two months of every year. The most obvious break-bulk areas for supplying Europe are in Orkney and Shetland, because the special types of vessel that would shuttle through that service could transfer in that area to containers for the European rivers.

The combination of carbon capture and storage, renewables and break-bulk traffic means that those skills that we congratulated ourselves on getting rid of, such as building and repairing ships, are the skills that we will need, if only to do the maintenance and provide port facilities. Do we have the resources that will allow us to do that on our own? Are we prepared to link with the Norwegians and the Germans, who desperately need such technology and our sites? That is a matter of diplomacy, in which a Scottish presence has to be significant. Scottish Enterprise's role may well have to be that of an international negotiator.

Lena Wilson: I hope that I am diplomatic but I am not a career diplomat, so I might not put us in the frame for negotiation. However, Scottish Enterprise can definitely be a bringer of opportunity, facilitator, and bridge-builder. In summary, we cannot do everything on our own. We must have a level of co-operation.

We are very involved in the CCS opportunities and I hope that there are some interesting announcements to come on CCS in the next couple of months. We are looking at making available for CCS opportunities the same kind of investment funds that have been made available for marine opportunities and we hope to be introducing that as well.

Christopher Harvie: Energy is distributed over four or more different ministries in Scotland. Would you prefer to have something like a super-ministry that dealt with energy, given the amount of integration that will be required in the field?

Lena Wilson: I think that our relationships are working very well. I had a meeting with David Wilson, the director of energy, on Monday. We are also involved in environmental technologies with Ms Cunningham's officials. I do not have an issue with that at all.

Gavin Brown (Lothians) (Con): I apologise to Lena Wilson and Crawford Gillies for missing some of their opening remarks.

Quite a lot of the evidence that the committee has received refers to what is called the gap. Various witnesses have talked about the business gateway dealing with start-ups and small businesses, while Scottish Enterprise focuses

more on the high-growth businesses and several thousand account-managed companies. Their concern is that, in the middle, there is an enormous number of companies that might have growth potential and might be doing interesting things but which are untouched by the current structures.

I have two questions on that. First, do you recognise the gap that business organisations told us about in evidence? Secondly, if you agree that the gap exists, is there a way of filling it?

Lena Wilson: I apologise to other members, as I think that we might have covered some of that issue earlier. We do not recognise the gap. All the evidence points to the fact that there is not the kind of gap that we have read about. Just to remind committee members, I point out that only a third of all businesses in Scotland have any employees at all, and 60 per cent of all private sector employment in Scotland is provided by just 2 per cent of all businesses. Scottish Enterprise should focus on the businesses that are most likely to generate employment growth and international opportunity. All other businesses can access the business gateway. Scottish Enterprise products and services reach about 7,000 companies, which is a large percentage of the private sector companies that actually employ people. We work with about half of all the companies in Scotland that have more than 10 employees, so our coverage of companies with any potential for growth is significant.

You talk about a gap. I concede that our evidence shows that there might be a gap in awareness among businesses of the support that they can get, for example from the business gateway. We could do more to ensure that we get all the information to businesses about where they can get support. However, we have no evidence of any unmet demand for services.

An example that I have been given of Scottish Enterprise not supporting companies was that of a company in the south of Scotland that needed a new alarm system for its premises. That is not to do with economic growth and certainly not economic development, and it is not Scottish Enterprise's role to provide that. We have to expose some of the myths. There is something wrong with a company if it cannot afford an alarm system for its premises. That is not to do with economic development. We can find no evidence of a gap or of unmet demand, but we will continue to work with the business gateway to ensure that every business in Scotland knows who to turn to and for what.

Gavin Brown: I was not referring to single-person businesses, which make up two thirds of companies, as you say. The evidence to which I referred was from bodies such as the Scottish

Chambers of Commerce and the Federation of Small Businesses, so it was not just one or two businesses complaining—the evidence was presented to us by business organisations with many thousands of members. The gap relates to what they describe as companies in the middle. They are not start-ups or, at this stage, high-growth companies, but the bulk in the middle. However, your view is that there is no gap.

Lena Wilson: I have talked to chamber colleagues subsequent to that evidence and I feel that we are in agreement that, if a Scottish company has the ambition, wherewithal, capacity and capability for growth, there is absolutely somewhere for it to get assistance. If companies have no ambition or desire for growth and merely want subsidies, it should not be the public sector's role to help them. The public sector should help companies to grow and to do things that they would not do themselves.

To reiterate, I am sure that we can go a lot further on the advice and information that we give to all companies to ensure that they can take advantage of our services. I will certainly ensure that we are doing a better job of that, with business gateway colleagues. I am sorry to repeat myself, but we have no evidence of unmet demand among companies that want to grow. If they do not want to grow, I am concerned about them.

Gavin Brown: In fairness, the evidence was given earlier in the inquiry, and obviously you cannot speak for chambers of commerce, but do you think that, if the Scottish Chambers of Commerce gave evidence today, its view would be different following your conversations?

Lena Wilson: It would undoubtedly tell you that there is frustration in some businesses that want funding or grants for things that they do not get funding for. However, we are not in the business of pleasing everybody; we are in the business of helping the Scottish economy grow. We should be in the business of excellent customer service and telling people what we do and do not do. I would not say that there is no frustration among companies that want assistance and do not get it, but the real question is whether they should get it in the first place.

Gavin Brown: In your opening remarks, you spoke about the Scottish Investment Bank. The cabinet secretary assured us that it would be open for business by the end of January. By "open for business", I mean that it would have funds other than the seed fund, the venture fund and the co-investment fund, which were all pre-existing. Will it be open for business by the end of January, with funds other than those three?

Crawford Gillies: Our account managers are out in the marketplace, making companies aware of what will be available from the loan fund. The procurement process to select the fund manager is well advanced. In fact, my board will be signing off on that before the end of this week, and there will be a few days' hiatus before we can announce the result of that. After that, we are very much up and running.

Gavin Brown: I accept that progress is being made, but will the bank be physically in a position to lend money to businesses by the end of January?

Crawford Gillies: Processes are being started. Inevitably, as you will understand, after someone applies for a loan, the due diligence procedures and so on take a couple of months, so I am not sure that people will see money in their bank accounts for two to three months. However, we are generating demand at present, and the fund manager will be announced within the next two weeks.

Gavin Brown: I accept the point about money in the bank, but if a business in the Lothians comes to me today and says that it wants to go to the Scottish Investment Bank, will it be able to make an application before the end of January? I accept that due diligence takes time, but will the bank be open by then?

Crawford Gillies: No; the application forms do not yet exist. If the company is an account-managed company, I would encourage it to talk to its account manager, who could provide more information and get the company in the pipeline for filing that application in due course.

Gavin Brown: When do you predict or hope that companies will be able to physically apply to the Scottish loan fund?

Crawford Gillies: If we appoint the fund manager this week, as we plan to, procurement rules require us to have a standstill for 14 days, to allow people who have been rejected to appeal and so on. I envisage being able to announce the fund manager within a matter of weeks. Presumably, it will take a couple of weeks further for the organisation to have its forms ready and to be distributing them.

Lewis Macdonald (Aberdeen Central) (Lab): I have raised a number of issues with Scottish Enterprise about its local engagement and accountability following the abolition of local enterprise companies and their boards under the 2007-08 reforms.

There is an issue around the accountability of Aberdeen city and shire economic future as a regional advisory board. I am interested in your comments on how it compares with other regional

advisory boards across the network. Lena Wilson will recall that I have corresponded with her, as I have done with local authorities, on the accountability of that organisation. The response that I received from her was clear. She said:

“Given their advisory nature RABs have no decision making or approval powers and, as such ... are indeed outwith the jurisdiction of the Standards Commission for Scotland or the Office of the Chief Investigating Officer.”

If ACSEF is not accountable for the decisions that it makes that have an impact on the local economy or infrastructure, does that mean that Scottish Enterprise is? Where does the accountability for those decisions lie?

Lena Wilson: As you know, ACSEF is different. It is one of the five regional advisory boards that we have in Scotland, but it retained the shape and infrastructure of the local economic forum.

With regard to the regional advisory boards, the clue is in the word “advisory”. They have no governance locus in, and no authority to commit any expenditure on behalf of or make any decisions that are binding on, Scottish Enterprise.

10:30

Attached to each regional advisory board is an executive team—a regional director and an executive support the board in each of the five areas. The boards are there to provide a strong local connection. Aberdeen city and shire economic forum helps us with and advises us on issues in the north-east. Not surprisingly, the forum has a lot of experience in energy-related subjects; it includes some of the 100 advisers whom I mentioned in my opening statement.

You asked about accountability and what is binding on Scottish Enterprise. Accountability for any decision that Scottish Enterprise takes based on the advice of a regional advisory board rests with Scottish Enterprise. Neither ACSEF nor any other regional advisory board can take a decision relating to expenditure on the economy that is binding on any of the partners. The partners must decide whether to accept or reject the advice that they receive.

Lewis Macdonald: The controversial issue in relation to ACSEF’s operation is not energy—in which, as you say, there is a large amount of expertise and common, widely shared objectives—but city centre regeneration in Aberdeen. From the point of view of the people whom I represent and the wider region, there is a question about ACSEF’s dual role. If you are not responsible for ACSEF’s active support for one vision of regeneration rather than another, the question becomes, who is responsible for that and where does accountability lie?

I will put the question again in a slightly different way. Where an organisation with such a dual role is operating as an active player in local policy decisions and appears to be operating separately from Scottish Enterprise, what options are open to those who believe that its propositions may be wrong?

Lena Wilson: There are two main players in economic development: Scottish Enterprise and local authorities. I apologise to anyone whom I am missing out by saying that. Accountability for local regeneration and for the vision of that in the north-east lies with the local authorities: Aberdeen City Council and Aberdeenshire Council. The vision of how the north-east relates to Scotland’s economic development is an issue for Scottish Enterprise. That is where accountability lies.

I have received a great deal of correspondence on the subject, not just from Lewis Macdonald but from Aberdeen city and shire. I reiterate that Scottish Enterprise aims to base all its decisions on economic impact and evidence. There will be many preferences and opinions; I know that the issue has generated a lot of passion and debate. Scottish Enterprise’s role is to use our leverage, influence and funds to try to back the horse that brings the best economic return. Ultimately, that is the only influence that we should have. Believe me, a great deal of influencing has been attempted.

Lewis Macdonald: I am sure that that is true.

Next week we will hear evidence on local regeneration in urban Scotland; we look forward to that discussion. As you say, the interface with local government is critical. You will recall that towards the end of last year I raised another matter with you, following a decision by the enterprise, planning and infrastructure committee of Aberdeen City Council in November to approve proposals for a city development company to take over assets from the council. That committee’s report states:

“On the public sector side, the maximum number of directors”

of the board of the intended company

“that can be appointed by the Council will be 4, with 1 further member appointed by Scottish Enterprise and 1 appointed by the Aberdeen Civic Forum”.

Clearly, that is an important proposition for the citizens of Aberdeen.

However, when I raised the issue with John Swinney and wrote to you about it, I discovered that you had had no discussions with Aberdeen City Council about the proposition that it had approved at a formal meeting of the relevant committee. Can you comment on the relationship that is operating there? If we are to have

confidence that the changes that have been made, which transfer responsibility for local regeneration from Scottish Enterprise to local authorities, but with a continuing relationship between the two, are working in the way that is intended, this seems to be a poor example of communication or co-ordination between Scottish Enterprise and Aberdeen City Council, which appears to have spoken on your behalf without your consent.

Lena Wilson: I will comment on both the specific and the general points. On the specific point, I have to say that right here, right now, I am not sure exactly where we are on that and what has happened in the past few weeks, so it would be remiss of me to answer. However, I will pick up on that point with you outside the committee.

Generally, we put a great deal of effort into every one of our local authority relationships. We meet the chief executive of every local authority and their team very regularly. I have a sheet that tells me where we are in the relationship and the key projects in which we are involved.

I went along to an evening with the Society of Local Authority Chief Executives and Senior Managers—I think I am the first chief executive of Scottish Enterprise ever to meet all the chief executives of Scotland's local authorities. We also regularly attend SLAED. Our individual relationships are very good, and the SOLACE meeting allowed me to pick up on one-to-one relationships with the chief executives, which we have not had before.

The general relationship is strong: we are involved in and attend all the community planning partnerships, and we work strongly with the economic development teams. The recent evidence of our joint projects shows that to be the case.

Lewis Macdonald: That is helpful; I definitely do not expect an immediate response to my question in terms of the detail.

In this morning's *Press and Journal*, there is an article containing a further account from the same enterprise, planning and infrastructure committee of Aberdeen City Council. The council's deputy leader, Councillor Kevin Stewart, claims that Scottish Enterprise had withdrawn funding for the Peacock arts centre in Union Terrace gardens as long ago as April 2010, although the project was still on the table until a decision was made in autumn last year.

I note that Scottish Enterprise has rebutted that suggestion, but nonetheless I wonder what your response is to that claim. It brings us back to the issue of city-centre regeneration, which is so important in Aberdeen. Again, it seems that Scottish Enterprise is being accused of not providing the full information to its local authority

partners at the appropriate time. Are you in a position to respond to that today? If not, perhaps you could do so in due course.

Lena Wilson: I have to confess that I have not seen today's *Press and Journal*. We are often accused of many things—I find that it goes with the role—but I cannot comment specifically on that, although I will pick it up with you outside the committee.

Lewis Macdonald: I appreciate that.

I turn to another matter, which is related to local and national board members and their relationship to policy and process. In your introductory remarks you talked about the importance of board members in terms of the challenge role and in ensuring that you are pointing in the right direction.

When he was last before the committee, we heard from John Swinney that the decision to announce the national renewables infrastructure fund was a joint decision by the Government and Scottish Enterprise. Was that proposition discussed at board level before it was announced? Can you indicate whether there was dialogue with the regional advisory boards in the relevant parts of Scotland prior to the announcement?

Crawford Gillies: The answer is most definitely that it was discussed. Our own board discussed and approved the fund prior to the Government making any announcement. Similarly, there have been discussions with the regional advisory boards—not quite all of them, but certainly a number of the relevant ones—in recent months on the overall plan and fund.

Lewis Macdonald: Is that an on-going process? What we have heard so far about this year's budget is that some money has been earmarked but is not expected to be drawn down, and there is a bit of ambiguity as to what, in practical terms, you expect to spend in that area in the course of any given financial year. Do you anticipate that you will continue to discuss that with the regional advisory boards for the areas with an interest in the matter?

Lena Wilson: It will largely be down to market demand. We have had £70 million in bids; the bidding opened just before Christmas. Although we earmarked a sum that we would be willing to make available before the end of this financial year, we have to stimulate bids. Some of the bidders will form consortia and will be in discussions with one another. The regional advisory boards will be one arena in which we will discuss that, but we want to stimulate the market to take up the opportunities.

I would like the £70 million to be spent—to have no money left in the first or second year because that means that we are motoring with it. That is

why that commitment and signal were so important. We have £70 million, versus £60 million for the whole of England, where there is a very similar fund. It has been a fantastic marketing tool internationally. Some of the activity will come from international markets and may take a year or so to come through.

Stuart McMillan (West of Scotland) (SNP): I have a few questions, the first of which touches on something that Lena Wilson said earlier, when she said that Scottish Enterprise is now working on priority companies. Would you say that Scottish Enterprise is leaner and more effective than it was pre-2007?

Lena Wilson: It is difficult to say. Of course I am not going to say that it is less effective. All the evidence says that it is more effective. We have millions of pounds' worth of efficiencies, a significantly lower head count and 30 fewer senior directors. We are also dealing with more companies than we dealt with prior to 2007. As I said earlier, we have an evidence base that says that we have a strong leverage rate of 8:1. All the indicators would say that we are a much leaner, more efficient and more effective organisation than we were in 2007.

Stuart McMillan: Marilyn Livingstone touched on collaboration with other public bodies. I would like to clarify the situation. To what extent do we now have a team Scotland in place? How have the key agencies—the Government, councils, regulators, academia, schools, colleges and the private sector—improved their collaboration with one another?

Crawford Gillies: I will make a general point before I hand over to Lena Wilson. We have made significant progress in the two years in which I have been involved with the organisation, perhaps particularly over the past 12 months. A couple of examples are the food and drink sector, in which all the strategic forum partners are very much pulling together towards a common strategy and support for that sector, and renewables.

Do I think that we are all the way there? No. I think that we can take this to a further stage. To achieve our ambition for Scotland we need to move that collaboration to a higher level. However, there is significant progress and momentum.

Lena Wilson: The chief executives of the main non-departmental public bodies—me; Alex Paterson from Highlands and Islands Enterprise, who is sitting behind me; Mark Batho from the Scottish Further and Higher Education Funding Council; VisitScotland's chief executive; and Skills Development Scotland's chief executive—meet regularly to discuss strategic issues, which did not happen prior to my appointment. That discussion is very much about the strategic issues that face

the Scottish economy, how we prepare together for the Government's strategic forum and how we speak with a common voice. That filters its way through to projects, not just on food and drink but on renewables, particularly given the important role that the Highlands and, indeed, skills play in renewables.

Stuart McMillan: How has internationalisation been accepted by the business community and business bodies? I was thinking about the smart exporter scheme.

Lena Wilson: It has been a key theme, which has had lots of press coverage, with much of the focus on stimulating demand. I have said previously to the committee that all the evidence suggests that companies overestimate the challenges of internationalising and underestimate the benefits. The starting point has been to get that message out to companies. There have been a huge number of seminars and events—I have spoken at many of them—to encourage businesses to internationalise. That has led to an extra 8,000 businesses that never had any form of international help before getting help through smart exporter. We have seen a huge increase in the number of companies going into new markets and joining trade missions. It is very much the big push for the whole economy. From my point of view, everyone got right behind it.

10:45

Stuart McMillan: How have ministers helped with—or hindered—such activities?

Lena Wilson: In the past 12 months, I have joined the First Minister on two visits—one to China and one to India. That approach has allowed us to open doors that we would not have been able to open on our own. Also, Mr Swinney has gone out a couple of times to do business for us in Japan, including meeting Mitsubishi, which we delivered for Scotland. The First Minister, too, met Mitsubishi during the summer. Mr Mather has gone to North America and Canada for us several times.

I have joined those ministers in business meetings and, as has always been the case, they have helped us to open doors to company chief executives and chairmen to whom our people in the field cannot always gain access. That has been very helpful.

Stuart McMillan: My next question follows on from the evidence that we received from Robert Crawford last week. Throughout his evidence, he suggested that more focus should be put on larger urban areas such as Glasgow, rather than on urban areas close to cities, such as Inverclyde, Clydebank and North Ayrshire.

I stay in Greenock, and last week was a mixed week for Inverclyde in terms of business news: at the beginning of the week, a local company went into receivership; towards the end of the week, there was the excellent announcement regarding Amazon and more jobs coming to Inverclyde; and then, on Friday, information came out on the funding for the URCs.

URC representatives will be at the committee next week; they will have a lot to say, so I do not want to focus too much on that issue just now. Nevertheless, the URC decision seems to back up Mr Crawford's suggestion of more funds going to the larger urban areas as opposed to elsewhere. How did the URC funding decision come about? What were the main areas of focus that ensured that the larger amounts of money went where they did?

Lena Wilson: The URCs and their work are very important to Scotland. That is demonstrated by the fact that we continue to make a significant commitment, along with the Government, to the URCs. Two factors have affected the amount that each urban regeneration company will receive. First, there must be an economic opportunity, the sustainability of which is based on evidence of the gross value added to the Scottish economy—measured in relation to the other opportunities available to us. I think I said earlier that we had opportunities that would have taken us £60 million over the budget that we had available. In such a position, you have to prioritise the priorities. That was an important consideration.

Secondly, we worked with URC representatives—as we have been doing over the past few months—on the legal commitments of each urban regeneration company and on the projects that we feel should have the greatest priority at regional and national level.

Taking all those considerations together resulted in the allocation from the Scottish Enterprise budget—which is still a very sizeable allocation. There has been a sizeable allocation from our general infrastructure funds, a high proportion of which will go to URCs. Based on the funds available in the current economic climate and our considerations of economic impact, we came to our decisions. More heat than light has been shed on the issue in much of the press speculation this week.

Stuart McMillan: You have mentioned local economic impact and economic return—issues that were touched on earlier, too. Although the 1999 tall ships event was regarded as a one-off, it is coming back to Inverclyde. I remember that whole weekend extremely well, and anyone who went along to it has nothing but positive things to say about it.

The experience of 1999 was not built on. However, I am quite confident that lessons have been learned from that experience, so when the tall ships come back to Inverclyde this year, there will be a more sustainable level of opportunity after the event.

It was estimated that some 800,000 people went to the tall ships event in Inverclyde in 1999. I am not saying that that will happen this year. I hope that the weather will stay good; it was superb in 1999, which certainly helped. The event generated substantial sums of money for the Inverclyde economy. It had a short to medium-term economic benefit for the Inverclyde area, which at that point was still fairly depressed.

I urge Scottish Enterprise and the Scottish Government to ensure that, when they are considering any other moneys to be distributed, they fully consider the economic impact and benefit that the tall ships event will bring to the Inverclyde economy in terms of sustainability and more jobs post the event. The URC is not built around the tall ships event, but the event is a key part of ensuring that the Inverclyde economy moves forward.

Crawford Gillies: We hear you and we will ensure that that is taken into account. As I understand it, our evaluation suggested that there has not been significant sustainable economic development; the event was very much a one-off. We need to take into account to what extent it can be turned into sustainable economic development for both Inverclyde and Scotland.

Lena Wilson: There was no funding previously for Riverside Inverclyde that was earmarked specifically for the tall ships. It is not that we earmarked something and removed it. We have to look at the evidence base on sustainable economic development. I also understand that quite a lot of cost was underwritten after the last event, which also has to be taken into account.

Stuart McMillan: I fully accept your points. You will know the proposals for the Riverside Inverclyde URC inside out and the massive opportunities in Inverclyde pre and post the tall ships. It is about how Inverclyde can fully develop and prosper. We cannot continue to lose 20,000 people over 20 years. The event is a wonderful opportunity.

Lena Wilson: There are many opportunities for Inverclyde. Regeneration is certainly part of that, as is inward investment by Amazon, for example. Inverclyde's connectivity to other urban areas is vital. We are still providing several millions to Riverside Inverclyde, as we have done for the past four years. I point out that, in the area of urban regeneration, we also now have the £50 million joint European support for sustainable investment

in city areas fund, which we are strongly urging the URCs to bid for, too. Additional regeneration funding is available and areas such as Inverclyde can bid for it—I know that they are actively doing so.

The Convener: I have a couple of final questions. On the other side of the URC equation is HIE's particular role in relation to supporting communities. Scottish Enterprise does not have that role, although there are some fragile and remote communities in the Scottish Enterprise area. Could or should Scottish Enterprise be doing more to support communities in areas such as Dumfries and Galloway and the Borders that have particular problems as a result of remoteness?

Lena Wilson: The rural areas of Scotland are a very important focus for us. We have a dedicated rural team that works across Scotland and which is headed up by Julian Pace, one of our directors. As I said, 20 per cent, or 450-odd, of the companies from our account-managed portfolio are rural businesses. We cover between 25 and 30 per cent of all businesses in rural areas. That is important for us. We have worked on everything from diversification to specific international programmes and leadership of rural businesses. We have seen a lot of farm businesses diversify into food tourism businesses in the south of Scotland.

In the past two years, I have gone to the annual rural leadership conference, which is an important part of Scottish Enterprise's offering. There are some interesting opportunities in renewables and biomass, and tourism is massively important for us, as is food and drink. Those are three sectors in which the rural economy plays a strong part.

We divert quite a lot of our attention and resources into rural areas because they are economically important to Scotland. You are right to say that, unlike Highlands and Islands Enterprise, we do not have a specific fragile communities remit, but we strongly recognise the economic potential and requirements of rural areas.

The Convener: Thank you for that.

My final question is on the reforms to Scottish Enterprise, which is what our inquiry is largely about. When the reforms were introduced, the Cabinet Secretary for Finance and Sustainable Growth said that Scottish Enterprise would be firmly focused on national and regional priorities and that local authorities would assume an enhanced role in local economic development. Will you explain how you decide what is regional and what is local in relation to economic development—and regeneration, for that matter? There is some concern that what is defined as

regional and what is defined as local might have caused some problems.

Lena Wilson: There is no book that tells us what is local, regional, national or international. It is not an exact science. If it was that easy, we would not be having this discussion.

The most important thing is Scotland's national and international connections, because the answers to some of the real growth dilemmas in Scotland are about innovation, research and development and access to international markets. Scotland is too small a country just to focus on Scottish issues, so those have to come first. Also, I think I said earlier that economic development does not happen somewhere in the atmosphere. It happens in places—in regions and in local areas. For example, the Amazon project that was announced last week is an international opportunity that will have significant regional impact in the economies of Fife and the wider east of Scotland, and Inverclyde and the west of Scotland.

It is not a matter of deciding whether something is regional or local. It is a question of looking at the overall opportunity and ensuring that we maximise the local and regional impact. When the cabinet secretary made that statement, what he clearly meant—obviously, he will be able to tell you for himself next week—was that Scottish Enterprise would not be involved in projects that were easy to see as local economic development, such as town centre regeneration projects. Those would go over to the local authorities.

When I say "regions", I do not mean administrative regions. I mean economic regions of Scotland that make sense to people. The fact that we think of something as a region does not mean that the world thinks like that. In fact, much of the world thinks of Scotland itself as a region, in terms of scale.

The Convener: We had better not get into that debate. Lewis Macdonald has a final question. I ask him to be quick.

Lewis Macdonald: I want to come back on a point that was raised earlier about regeneration projects. Just to clarify, when Scottish Enterprise decides to withdraw from engagement with a project, is it normal to notify the project sponsor immediately or in due course, and is it normal to notify the funding partners? If so, how quickly is that likely to happen?

Lena Wilson: Given that you have asked me that question, I fear that you have an example of where we did not do that. However, it is indeed the case that it is not just a courtesy but professional and normal practice to notify people at the appropriate time. It is unforgivable and difficult when letters are leaked by others and decisions

become public before we have even had a chance to communicate them, but yes, what you describe is normal and decent practice.

Lewis Macdonald: And it is normally done within a very short timescale.

Lena Wilson: Indeed. I imagine that there is normally a phone call first, followed up straight away with a letter.

Lewis Macdonald: Thank you.

The Convener: I thank Crawford Gillies and Lena Wilson for coming to the committee this morning and for their very helpful evidence.

10:59

Meeting suspended.

11:05

On resuming—

The Convener: In our second panel, I welcome back to the committee William Roe, the chair of Highlands and Islands Enterprise, and Alex Paterson, the chief executive of Highlands and Islands Enterprise. If you want to, you can make some opening remarks, after which we will open it to questions.

William Roe (Highlands and Islands Enterprise): Thank you, convener. Good morning, everyone.

We are pleased to be back with the committee again. We have been following your work carefully, including the visit that you made to Skye and the evidence that you gained from so many people, both from Skye and the Western Isles, on that occasion. We submitted our written evidence in September 2010. Without going over that again, I note that it outlined the progress that we believe we and our predecessors have made over the past 45 years or so since our predecessor agency was formed.

The evidence emphasised that, as an agency, we are committed to all parts of our region. We have staff and resources in every part of the Highlands and Islands. Our evidence argued that the unique integration of economic and community development, which you discussed with Lena Wilson and Crawford Gillies, is the right model to address the challenges and rise to the opportunities that the Highlands and Islands has in front of it. The evidence base over the past 20 years or so is quite consistent and strong that things have been moving steadily and strongly in the right direction. We can discuss that if you would like us to.

Much has happened since we submitted our written evidence in September. We face a

dynamic and fast-changing situation in the Highlands and Islands; it probably has more positives than negatives. You get the chance to change a chief executive only once in a decade or so and we were delighted, in the late summer, early autumn, to appoint Alex Paterson as our new chief executive. One of the things that he has done—he will say more about this during the meeting—is to sharpen up the objectives of our agency.

Fresh eyes have come into the leadership and there is a different economic climate from probably any year that we can remember, so we have reshaped our business under four objectives: first, to support businesses and social enterprises to shape and realise their growth aspirations; secondly, to strengthen communities and fragile areas; thirdly, to develop the key sectors of the economy, particularly in pursuit of distinctive regional opportunities in the Highlands and Islands; and, fourthly, to create the supporting conditions for a competitive and low-carbon region. Those are the four objectives that we are working to now; they are consistent with both the needs and the opportunities of the region and of Scotland as a whole. We are now following the objectives through in the development of our operating plan for the next three years, which I think will reflect them very strongly.

Of course, achieving things is not only about strategy and priorities. The real test is the effectiveness of what we deliver to our communities, to our businesses and to the sectors of the economy. Much has been happening on those matters since September.

Probably the worst news for a very long time was the announcement, following the strategic defence and security review, of the closure of flying operations at RAF Kinloss. That is not just any ordinary closure; it is one of the largest and most significant economic closures that there have been in Scotland for decades. The continuing question mark over the future of RAF Lossiemouth, together with what is happening at Kinloss, threatens to result in the loss of 6,000 jobs. It is a vast impact which, to put it into perspective, is equivalent to the loss of more than 30,000 jobs in the city of Glasgow and more than 400,000 jobs in greater London. You can imagine the hue and cry there would be if something of that scale were happening in London or in Glasgow.

Along with our partners, we took a leading role in forming the Moray task force in October in response to the challenges at both Kinloss and Lossiemouth. In November, we were able to make major investments totalling £13 million in projects that will accelerate renewable energy developments in Orkney and Caithness and help to build a sustainable future for South Uist, which

is one of our largest and most fragile areas. In December, we announced support for a £5 million expansion of the subsea training centre in Fort William, which trains divers and others who have to work under the sea and is one of the leading centres of its kind in the world.

Just last week, we enabled a contact centre called HEROtsc to embark on an expansion of its Rothesay premises. Rothesay and Bute face a number of challenges although they have enjoyed a number of successes. That investment is creating more than 40 new jobs to add to the 53 people who are already employed there. Securing 93 jobs in one business on the small island of Bute is of great significance to its future.

Each of those examples shows what we think that we are doing and what we can do at our best. We are responding to a crisis and leading the partnership that is dealing with the crisis in Moray; we are working with our partners in Orkney, Caithness and the Western Isles; we are creating new infrastructure that will be important for the future; and we are investing in communities and businesses. Those are the kinds of actions that we need to take to deliver growth throughout the Highlands and Islands as well as to help Scotland as a whole to achieve its growth ambitions for the future.

We appreciate the chance to join the committee for the rest of the morning.

The Convener: Thank you. I will start with a similar question to the one with which I started our questioning of Scottish Enterprise. One of your key responsibilities is to contribute meaningfully to economic growth in Scotland. How can you demonstrate that Highlands and Islands Enterprise has contributed to economic growth that would not have occurred if you had not existed?

Alex Paterson (Highlands and Islands Enterprise): Good morning. There are various ways in which we measure and monitor the contribution that we make over a period of time. There are several well-established key economic indicators for Scotland, such as the employment rate—the percentage of the working population that is in employment—the unemployment rate and population growth. I am not in any way saying that HIE or the Highlands and Islands Development Board was responsible for the positive trends in those figures, but I am pretty sure that the work that we have been doing and the work that our predecessor organisation did have in no small way contributed to those economic improvements. For example, the population in the Highlands and Islands is growing faster than the population in the rest of Scotland, the unemployment rate is beneath the Scottish and UK averages and the employment rate is higher than the rate elsewhere. At that macro

level, there are indicators to show the contribution that we are making. However, there are still challenges around productivity and wage levels—the gap is closing, but there is still more to do.

The second way in which we monitor the difference that we make is in looking at the contribution that our investment or support makes to an individual business, community or social enterprise. We gather information from all those organisations at the start of our engagement with them and monitor over time the change that our contribution makes. We undertake evaluations that substantiate that. For any major investment that we make, we carry out an economic impact assessment at the outset, which gives us an indication of what we expect to achieve so that we can go back and measure whether we have achieved that after the event.

There are certain things that we invest in that take an awfully long time to deliver benefits but which, nevertheless, looking back, we are glad we invested in. For example, Scotland has the world's only independently accredited test centre for wave and tidal devices. It was very hard to say, at the start of that project, that the difference would be X. However, we are now very glad that we have that crucial bit of infrastructure, which happens to be in the Highlands and Islands but which is a Scottish asset. Also, over the past 10, 15 or more years, we have invested many millions of pounds in supporting UHI to become a university, and we are now within weeks of Scotland having a new university. It would have been very difficult to say at the outset just what we wanted to achieve, but are we not glad that we have done it? There are various such examples of enabling infrastructure that have taken a long time to generate impact but which, I would argue, without HIE's involvement and regional leadership, would not now be contributing towards the region's economic prospects and prosperity not only today but in future.

Those are various ways in which we have contributed and continue to contribute to the region.

11:15

The Convener: How has the real-terms decrease in your budget over the past few years impacted on your ability to deliver economic growth in the Highlands and Islands?

William Roe: As is publicly known, there has been a substantial reduction in our budget from its peak, when £10 million was added in the course of the year and we were able to invest that huge resource in the economy. Budget reductions force you into several different positions. First, they make you prioritise even more rigorously than you

might have done before, which is what we are doing. Secondly, they make you seek ways of ensuring that money goes further, which means that, in the negotiations and diligence that you undertake with a company or project, you assess how the money can, if you like, bring the biggest bang for the buck. Thirdly, we are being vigorously proactive in looking to draw into the region—not into our own bank account—investment from sources beyond Scotland that can add to our impact on economic development.

Although all that work is under way and will produce results, there is no question but that the choices that we have to make are tougher than ever before and that the guidance that we have received from the Scottish Government on the country's economic priorities and our own insights about the best opportunities will force us to make even more choices. However, the map of our investments, copies of which we are happy to leave with the committee, demonstrates that we are continuing to invest in projects and businesses in every single part of the Highlands and Islands and shows the locations in which we have invested in the past three years.

There is no doubt, though, that the situation poses more difficult issues for a regional development agency. Nevertheless, we remain confident. Indeed, the evidence from our first year of trying to pull in resources from other places is that the sources of investment are many and attractive, and we are now on the hunt for them. We have always been vigorous in getting European money, but we are now having to be more aggressive and assertive in finding other investment.

The Convener: In its evidence, Scottish Enterprise said that, last year, it had been unable to support something like £60 million-worth of bids for funding. Do you have similar experience of being unable as a result of budget restrictions to support projects that you might have funded in previous years?

Alex Paterson: I do not have the kind of figures that Lena Wilson had, but I simply reiterate Willy Roe's comments. Choices are going to be tougher and we will need to maximise the impact of any investment that we make. One of the reasons why we have not simply gone away and pulled the duvet over our heads and why we are still talking up the region is that we do not want to dilute our ambition. We simply need to find other sources of investment. In December, we told the committee about our success in securing many millions of pounds from Whitehall to deliver broadband and, on Monday, my new leadership team was looking at a project that, with something like £300,000 investment from us, will lever an additional £1.3 million into the region from other sources. Our aim

is to support as many good projects as we can, but we must not only be clear about our priorities and what we need to support but ensure that we derive as much impact as possible from our investment.

Rob Gibson: It is good to see you both here.

I would like to focus first of all on transformational projects and geographical targeting. I wonder how well those things coincide in practice. You have talked about the long lead time or the slow-burning fuse of many investments. Do transformational projects include things such as the development of South Uist and the infrastructure at Lochboisdale as much as the renewables infrastructure that is developed in other parts?

William Roe: I will go first on that question; I am sure that Alex Paterson will want to add to what I say.

We believe that we have a duty as well as an opportunity to put together the conditions in which things that simply would not otherwise happen can be brought about. In some transformational projects, we deliberately take an enabling, leading and partnership-building role. One of the most tangible projects—it can be visited, experienced and felt—is the centre for health science in Inverness. If you drive past it, you will not even see it, as it is behind a number of more prominent buildings. The centre is an immensely innovative investment. It cost around £27 million and was built in three phases, which followed each other very quickly because, as soon as people knew that the centre was going to be created, there was enormous demand for the space and for taking the opportunity to be in there. The project is so successful because there is a series of partnerships in the centre that involve people from academic, business and national health service patient-serving backgrounds. Very few places in the United Kingdom or, indeed, other countries bring together academic, commercial and public services in the same major facility. That triangle of partnerships is turning out to be immensely attractive, and it has drawn into it leading talented professors from around the world. They bring their talents, new money, new research and new services.

The project was led, negotiated, funded and delivered by Highlands and Islands Enterprise, which pulled together a great partnership. Although the centre is in Inverness, it has repositioned the Highlands and Islands way beyond Inverness, as it is a very significant player in the life sciences sector, which is, of course, growing significantly, and which will continue to do so. That is a great example of clever and effective leadership in a project that will turn out to have a catalytic impact.

Rob Gibson mentioned South Uist, at the other end of the spectrum. That is a good example. I have known the community in South Uist for many years. Geographically, South Uist is as difficult to get to and from as just about anywhere in Scotland, and it has not had an easy life for many generations, for reasons that we know, including its former ownership. It was clear that there was an appetite for community ownership in South Uist, and the community buyout there is, and will probably remain, the largest that there has been. The buyout got great headlines and it was a marvellous achievement, but it was only the start. All that it did was create the conditions in which the community could draw in investment and exercise leadership to transform itself. It is undoubtedly valid to use the word “transform” in relation to South Uist, as the community owner’s ambitions to grow industries and grow the population will have a transformational impact.

We have been a consistent investor. We invest in the community company every year to build up its capacity in order to enable it to progress its project ideas. That is why, when the opportunity arose in November to invest with others in the transformation of the port of entry—the harbour and the facilities around Lochboisdale, which is the main town—we were pleased to be the largest single investor along with other investors in taking the project forward. The local authority and others and the European regional development fund are now coming in to support that. It would have been very difficult for South Uist to have reached the point that it has reached without the use of our economic and community development powers and our ability to invest in community leadership. Indeed, our contribution to the buyout was also significant.

Those are two starkly different examples. One involves a fragile community, but one that is important to our region, and the other involves cutting-edge scientific investment in the heart of our biggest city. I am proud that Highlands and Islands Enterprise has retained the powers and capability to do both those kinds of things, because both of them are required to serve our population and economy.

There is no doubt that targeting was involved. South Uist was targeted as one of our communities that were most at risk. We have not simply thrown money at it; we have worked vigorously with the community to build up its long-term capability to exercise the responsibilities that it has been willing to take on. If anyone thinks that that does not really matter, they should consider that, when vacancies come up on the board of the community company, there is fierce competition to fill them. The turnout in the election for vacancies on the board was higher than 85 per cent. Any local authority or parliamentary party would be

delighted to have that level of interest. South Uist is on a track to success, albeit that it is a long journey to get from where it was to where it is headed.

Those are two good examples of the value of transformational projects in which we exert leadership.

Rob Gibson: Thank you for those examples. Obviously, those take time to develop.

Another transformational issue relates to the Pentland Firth. You must be somewhat envious of the budget for the decommissioning of Dounreay, as it amounts to more than £150 million per annum, which in about 10 years of that work is probably much more than your total budget has been in all the years of the HIDB and HIE. Should we expect more from the Nuclear Decommissioning Authority to help with the transformation of the area? We are losing many of the most highly skilled people from there. We have heard from Scottish Enterprise that people can easily transfer their abilities into the new renewables sector.

Alex Paterson: The Pentland Firth is a massive opportunity for the region. You will probably be more aware than many others are of the investments that are taking place on both sides of the Pentland Firth, on Orkney and in Caithness. We must keep the leadership that that part of the world has through leasing, the European Marine Energy Centre facilities, the port infrastructure that will come and the research and development that is taking place by Heriot-Watt University on Orkney and UHI in Thurso. There is a strong supply chain of specialist companies and engineering companies that are based in the area. The Pentland Firth happens to be in the Highlands and Islands and is one of Europe’s leading wave and tidal resources. However, to pre-empt a question that you might ask me, we cannot fund that development through our budget. We have a role, but the development requires a huge amount of money and serious investment from various places.

The NDA has a role, and I like to think that we have good relationships with it. It has invested in various projects in that part of the world—there is the pontoon development at Wick harbour and it is involved in the Scrabster harbour development. Through our discussions and partnership with the Caithness and north Sutherland regeneration partnership, where the NDA is at the table, I hope that there is opportunity for further discussions with the NDA on the issue.

The skills issue is vital. You are right that we have a highly skilled workforce up in Dounreay. The window of opportunity that is presented by the decommissioning is closing all the time, but there

is still an opportunity. The trick that it would be good to pull off—I do not think that it is impossible—is to grow a new industry in Caithness, the Pentland Firth and Orkney that utilises the skills that have been there for an awfully long time. It would be difficult, although not impossible, to try to build that from scratch. The more we can align the rundown of Dounreay with the growth of the new sector, the better for Scotland and certainly for Caithness, Sutherland, Orkney and the Pentland Firth.

Rob Gibson: The Scottish Government is continually being told that it has to make quicker approaches to reduce our carbon emissions, and that obviously links to the enterprise agencies' work to facilitate the development of renewables. Do you think that the NDA ought to be more involved in providing some of the cash—you do not have it, so it must come from many other sectors—so that the enterprise agency can use its abilities to make things happen?

11:30

Alex Paterson: I know from recent discussions with the NDA that it is keen, both itself and through the contractors for Dounreay that it is in the process of appointing, to be involved in the social and economic development of that part of our region. I take it that there is an opportunity to have a discussion about how it can do that and how it can contribute going forward. I would like to think that we will use the good partnership that we have with it at the moment to have that conversation.

Rob Gibson: I need to ask a general question. We heard evidence on Skye relating to the appropriateness of Inverness and the Moray Firth area being included in the HIE area, given its strong economic performance and the fact that it draws a lot of people and money from other parts of the Highlands. The view is that further out has always been the priority but has never received as much investment.

William Roe: Let me offer some first thoughts on the issue. There is no successful rural region in the world that does not have a successful city at its heart. Although not every part of the Highlands and Islands looks to Inverness, Inverness is the most significant centre of economic activity and investment. We must perform a balancing act. Part of our job is to ensure that the city at the heart of our region is successful. Until recent years, aspects of Inverness did not look and feel like a city. On behalf of Scotland, we are having to do some retrofitting of Inverness, to provide it with things that had not been invested in previously.

The university is the best example. All the cities of Scotland—as well as some other locations—have universities at their heart. We know what

impact a university has on a city and its economy. We have had to be an advance investor to help to create the university of the Highlands and Islands, in which we have invested for many years, before it was a popular cause in Scotland as a whole and before the major investing forces—the Scottish Further and Higher Education Funding Council is the biggest of those—were in a position to take a view on UHI. We have to see that through. The investment that we announced 15 months ago of £25 million in infrastructure costs of the Inverness campus, to create a site not just for a university but for a college and economic development facilities for inward investment—the biggest inward investment site that the Highlands and Islands has ever had—was a strategic investment that will bring hundreds of millions of pounds of others' investment in its wake. It had to be made to secure the future of the city.

I will provide another example of the way in which we have to exercise leadership. As you know, creating international air routes into the Highlands is critical to exports, attracting inward investment and supporting existing inward investments, the biggest of which in Inverness is LifeScan. LifeScan is a global company, so people come to Inverness from around the world every week. International air links are critical to that. Along with Highlands and Islands Airports Ltd, we have had to exercise significant leadership to try to secure really good international air services to Inverness. I am not ready to announce anything today, because it is not quite ready to be announced, but work is at an advanced stage. We are hopeful that, before too long, there will be a really good announcement to be made about it. That is a persistent, below-the-radar effort that goes on and on. Exercising such leadership on behalf of the region as a whole is important.

I come to the nub of the point that you discussed in Skye; I have read the evidence that you took in that discussion. We invest in every part of the Highlands and Islands; the map that I mentioned and the evidence behind it demonstrate that. Given that South Uist is an island with 3,000 people, the investment of £5 million in Lochboisdale is many times more significant than an investment of £25 million in Inverness—it will be a transformational investment. We are able to make such investments because of our commitment to the future of every part of our economy. As Rob Gibson knows better than I do, the Highlands and Islands is made up not of one economy but of a whole series of regional and local economies, usually separated by scores of miles—if not ocean. Our duty, our obligation and our continuing commitment, from day one to now and beyond, is to serve every part of the region's economy.

There are many things that we do not do in Inverness and the inner Moray Firth now. That area attracts a much smaller part of our investment per head of population, and it does not attract anything like the effort that we put into strengthening communities and investing in social enterprises in other places.

Under the fantastic, well-designed new graduate placement scheme that we launched with our funding partners, the support that is available for businesses is deliberately skewed away from Inverness. Those in the inner Moray Firth get much less financial support for taking on a graduate compared with those in the fragile areas and the islands. Many of the things that we do are designed to give an edge or a lift to the islands, to the west and north coasts and to the small communities. The market works better in Inverness than anywhere else.

However, there is market failure in Inverness, too—it is staggering in terms of commercial property. There are issues with the willingness of central belt-based professional businesses and investors to see the opportunity that exists in Inverness and the inner Moray Firth. Residential property developers have observed that for some years. There is still a job to do if we are to succeed in getting national, London-based, European and global investors to appreciate the potential benefits of the Highlands and Islands.

Last year, we brought Mitsubishi capital bank to Inverness—we exposed its top leadership team to the opportunities that exist for its investments. We will continue to do that even more vigorously.

It is a balancing act. We have to secure the future of the city and the towns that matter—Elgin becomes very important, given what is happening in Moray. There are fantastic opportunities in the rural, remote and island areas. It is not our job to suppress those opportunities or to do anything other than support them when we can. The measles map, as I call it, is a revelation regarding the opportunities that exist in all the islands.

Rob Gibson: To sum it up, there are expectations in Scotland of how much enterprise agencies can achieve, and it is a much more subtle matter than the view from your headquarters, which, as someone said, historically was of a burger bar and a multiplex. There is also a university campus, and there is a good deal more to the picture than what you can see with the eye.

William Roe: There is a great deal more. Since his appointment in August last year, Alex Paterson and I—this was also true of his predecessor—have visited just about every part of the Highlands and Islands, typically spending a day and a half with local communities and business leaders,

convening business forums and meeting local authority and other investing partners. Without exception, during the visits that we have made over the past six months we have been overwhelmed by the positivity of people about what is going on in their areas and by the potential to go much further. Indeed, we are going much further.

To use the example of broadband again, even before others were up for it, if I may say so, we led the argument about the critical importance of superfast broadband, not just for watching better television in higher definition—that is not really its purpose—but in placing the Highlands and Islands, which are at the very fringe of the European continent, in a position where businesses in every part of the region can trade with the world on an equivalent basis. That is what superfast broadband does, in a way that no previous technology has done. Superfast broadband will provide a way to attract talented people who want a really good quality of life to come and live and settle in rural and remote areas.

Our commitment to superfast broadband roll-out does not involve starting in the biggest towns and leaving the rural areas until five or 10 years down the line. There are technical reasons for starting at larger centres and moving out, but the proposal that we took to broadband development UK was to roll out superfast broadband to 40 towns and their hinterlands in the Highlands and Islands in the same quite short period of about two years.

We have not finally decided the locations of the 40 settlements and their hinterlands, but it is pretty clear what they will be. Four of them are in Shetland, four are in Orkney, four are in the Outer Hebrides, four are in Skye and Lochalsh, four are in the Inner Hebrides and four are down in Kintyre and the islands down there. They are spread out through every part of the Highlands and Islands.

That is our philosophy and approach, and we find that it is highly attractive to investors who want to support what we are doing.

Lewis Macdonald: I will start with a follow-up question on one of the matters that you mentioned: the really good news on air route development in Inverness. I will not ask you who the new operator is, because you will not tell me, but I am interested. We have a debate this afternoon on the committee's report on international trade, in which one of our recommendations was that some form of reformed air route development fund would be helpful in stimulating exports and inward investment, as you have said. What has your role been in attracting the new operator for the Inverness route?

Alex Paterson: There are certain things that we do and invest in and there are certain things over which we have influence. In transport, our role over the past few years has generally been to influence, so our teams have been involved in aspects of the transport plan that are vital to the region.

Since we lost the Heathrow slot, we have been keen to ensure that the Highlands and Islands has a route into an international hub. If somebody is flying from Inverness to London, the route to Gatwick is good, but if they are going further they have two options: to drive to Aberdeen and fly to Heathrow or to fly to Gatwick and work their way around London. Let me be clear that the lead partner on the new route is HIAL, but we worked closely with it on the deal that, I hope, is about to be concluded. HIAL is leading on that, and we have been involved in influencing part of the deal, but we will invest in the route as well.

We have done that on one or two other matters. For example, over the past couple of years, we have had air routes in from Zurich and Düsseldorf from April to September or thereabout. We support them partly because more international connections are important and because they bring in visitors who are supplementing our tourism industry.

That does not take an awful lot of cash from us, but connectedness—whether electronic or actual—is clearly important to the region's attractiveness. Having a route to an international hub is hugely important. It will make a big difference for LifeScan and other companies that want to fly from the US to somewhere in Europe to Inverness. To grow a new industry in renewables, we need a route to an international hub.

I could go on. Our role in transport is generally to influence, but in this case it also includes providing some financial support.

Lewis Macdonald: Will the financial support go to promoting Inverness as a destination or to starting up the new route?

Alex Paterson: Pretty much the latter. VisitScotland is also a partner—credit where credit is due—and I guess that it will focus more on the marketing.

Risk is attached to setting up a new route. This is about marketing and covering some of the set-up costs, which will be for a short period. Thereafter, we hope that the route will become viable and self-sustaining, as other routes have done.

Lewis Macdonald: That is helpful. Understandably, HIE's submission gives a full response to the question about what the agency does that is distinctive under its strengthening

communities remit, but it body-swerves the question of whether it might be valuable for Scottish Enterprise to have the same obligation. It is not for you to tell Scottish Enterprise what its remit should be, but I am interested in your view on whether there is any reason why the strengthening communities remit that is so valuable in places such as South Uist might not also be valuable in other areas of Scotland where the communities are particularly fragile and economic development is critical to their future success.

11:45

William Roe: With hindsight, people were very wise when they created the HIDB and the legislation that gave it a wide range of powers, including discretion to do what seemed to be right on the day. There is no doubt that we and our predecessors value that broad remit, because it allows us to do and support things that make sense even if the rule book for them has not yet been written.

We could take you to hundreds of communities in the Highlands and Islands where you would see and feel the benefit of a vibrant community that has strong leadership that understands opportunities and is ready to roll with them. I will give just two examples that, with the benefit of a long evidence base, have turned out to be absolutely pivotal and could be rolled out throughout Scotland.

One is the investment that we and others have made for a quarter of a century in Gaelic music and arts performance and creation through the fèisean movement. At the beginning, it was done with no real sense of what it could become, but in the hands of the right people and with consistent support over many years, people were able confidently to build it up. I went to the 25th fèisean celebrations in Barra a few years ago, and it was wonderful to find how widespread the movement had become right across the Highlands and Islands and beyond. The Celtic Connections festival in Glasgow this month celebrates that achievement.

It really hits home when you realise that it is not just about making music; it is about helping people to transform their lives. Last year, I went to Ullapool to recognise the 20,000th modern apprentice of the year. I did not know very much about her before I met her, but she turned out to be working as a peripatetic music teacher in schools around the Highlands and Islands, teaching the next generation about Gaelic culture, music and music making. I asked her how she got into it, and she said that she got involved in the fèis in South Uist 20 years ago and it changed her life. It gave her a sense of who she was and who

she could be and she now has a career. From that, I got the sense that we are talking about economic and community development and the performance and development of the arts.

I will be more brief about my other example, but it is equally significant. Again, it arose from work that we initiated without sensing that it had a huge future. We invested to create the Highlands and Islands community energy unit, which is what it was called at first. Within our organisation, the team of people that we recruited had the job of helping small-scale renewable energy developments that were in the hands of local communities. The rationale was to support the development of assets that were owned by communities that could give them a long-term income stream. After the unit became hugely successful, we pushed it out of our organisation and allowed it to create itself as an independent social enterprise. It is now so successful that it serves the whole of Scotland.

We call that process promote and float. We promote a new approach, whether it be community arts, community energy or one of several other approaches, and at an appropriate time we give it its own life and ability to fly. From that, an investment of public money over the years of about £5 million—I am looking for the right amount, but I cannot find it in my bundle of papers, although I read it yesterday—has triggered investment of more than £140 million in renewable energy assets that are in the hands of more than 40 communities around the Highlands and Islands, all of which are generating long-term income streams that go right back into those communities.

From that, we realise that we have a magic circle, because the communities now have their own assets to decide what to do with. Alex Paterson and I met the community leaders from all the Orkney Islands when we went to Kirkwall two or three months ago. A woman from Eday, I think—

Alex Paterson: Westray.

William Roe: Westray—I beg your pardon. She told us about the community's success in renewable energy—their initiative is longer in the tooth than most—but she told us that they were facing a new problem that they had not had to deal with before. The island now has an income of £150,000 a year, and they are challenged with considering bids from individuals and communities for investment in great ideas that will make the community better. We are supporting them to build up their leadership skills and analytical skills so that they can do that really well.

I will not give more examples than those two on the arts and community energy, but they are

relevant to any community that is up for it in Scotland.

If you had gone to South Uist, as I did, 15 years ago, before the buy-out, you would not have said, "Gosh, this place is full of entrepreneurs and leaders, and ambition and capability." However, if we just turn the corner in communities and create the ownership pattern, we see that the leadership, ambition, entrepreneurship and determination that exists in South Uist is there in droves. Many communities have far more going for them than is evident, and our country would be stronger, with more devolved power and strong leadership, if we invested in community leadership and social enterprise on an even bigger scale than we currently do.

Lewis Macdonald: If a community from outwith your area came to Highlands and Islands Enterprise and said, "We love what's happening in Westray and South Uist. How do we get a part of that?" what would you say to them? It is clear that your remit for strengthening communities is not reflected in the same way in Scottish Enterprise. Do you have a view on how that type of benefit could be achieved for communities in the rest of Scotland?

Alex Paterson: Yes. Willy Roe is right—there are some good examples of things that are being done nationally. One example is Community Energy Scotland, and another, which we manage on behalf of the whole of Scotland, is the growing community assets fund through the Big Lottery Fund.

To approach the issue slightly differently, why do we do the strengthening communities work? That question is important. We invest through our strengthening communities remit for probably two or three reasons: first, where there is market failure; secondly, where commercial opportunities probably would not happen; and thirdly, where local services are limited.

We have two options. One is to close the door and give up on communities, but the other is to say, "Actually, there are other ways to skin the cat here." Through our strengthening communities remit we ask whether we can use communities, community groups and capacity. There are some fantastically skilled people in some of our more remote and fragile areas, and we can use them to create the sustainable, dynamic communities of the future that will create jobs, employment opportunities and so on. We can do that in various ways, through social enterprises, through our fragile areas initiative—which is probably quite distinctive to our region—and through investment in community account management and other things, such as the arts and culture.

There is a clear remit for why we do the communities bit. I always say that it is the bit that makes us distinctive, but it is actually just another tool in the toolkit. Bute is an interesting example, because it is one of the more challenging parts of the region, for various reasons. Willy Roe referred to HEROtsc, which is a big multinational company that is investing in its outsourcing facility in Rothesay. We are investing in some indigenous businesses in Bute, but one of the big catalysts for the island will be the Bute Community Land Company, which has a lot of ideas around renewable energy, food and drink, crafts and so on.

Our communities function involves trying to address particular issues, but it is an integral part of the toolkit that we provide. If we were approached by communities elsewhere, our approach would be to give as much advice or signposting as we could, but we are clearly limited to delivering our products and services in the Highlands and Islands.

Lewis Macdonald: I have one final question, which relates to the issues of accountability and governance that I raised with Scottish Enterprise. It is clear that the structure in the HIE area is different. Can you comment briefly on the maturity of the local area panels and whether they are delivering the type of responsiveness and engagement that the local enterprise companies previously delivered in the Highlands and Islands? If they are not, do you believe that mechanisms are in place to move them in that direction?

William Roe: That is a really important issue. In fact, it mirrors what I said earlier about our commitment to reach all parts. We need to be accountable to all the parts for what we do. The decision not to continue with 10 LECs, in terms of governance and all of that, was the right one, as it has unified and strengthened our organisation. We have remained highly decentralised; in fact, we have probably never been more decentralised than we are now and we have been moving down that track for many years. Alex Paterson made a conscious choice, when he took over as chief executive, that we were not going to centralise in Inverness, and we now have professional capacity in every part of the Highlands and Islands.

The panels are informal—they do not have the status that they have in the Scottish Enterprise area, but they are important to us. The truth is that some of them work better than others. Some parts of the Highlands and Islands have a really strong history of collaborative business working and people supporting each other with common marketing and so on—it is just in their bones. Two areas where that history is strong are the Orkney Islands and Skye and Lochalsh, although there are others. In other places, there is not that strong

history and the panels are less effective. However, even in the places where they are less effective, our board and I spend a lot of time out and about. I do not wish to labour the point, but we take our leadership team to meet each of the seven local authorities in our area twice a year on their patch—we always go to them. We also meet all our quango partners frequently. We will spend a morning with the Scottish funding council this week, and that is typical of the regular pattern.

At the local level, one of the reasons why Alex Paterson and I have spent so much time close to the ground recently has been to understand how that collaboration can be stronger and better. In places where the community is already very coherent, we do not need to do a lot because it happens fairly naturally. In places where it does not happen naturally, our people need to lubricate it and strengthen it. I will not say that we could not improve the way in which we listen and respond to businesses, but we put a lot of effort and care into that. We take small groups of our board members on frequent visits. When significant things are happening or failing to happen because of particular issues or problems, we deploy resources from wherever they are to where they are most needed.

So although we have geographically distributed teams of staff, under Alex Paterson's leadership we now have more flexibility. For example, the area manager of our operations in Shetland also happens to be one of the leading experts in telecommunications and broadband, so he has a dual function. He works for the whole of the Highlands and Islands in the roll-out of our broadband and he provides leadership for our work in Inverness. There are several examples of that kind of working. It was not my idea, but I think that it is a clever way of ensuring that the expertise of our smaller organisation is available in the most flexible pattern possible.

Ms Wendy Alexander (Paisley North) (Lab): I have a follow-up question on the superfast broadband project, which is very exciting. The sum of money that the UK Government has allocated to the project from the BBC digital switchover rollover is of the order of £140 million. For the initial pilot project, we are looking at a sum of £5 million to £10 million. In the context of the Highlands, 40 towns is an ambitious target. Are you confident that you will be able to reach that target with the resources from the UK, or will they need to be supplemented? On a slightly longer time horizon, beyond those two years, what sums of public money might be needed to realise for the first time, as Willy Roe says, online connectivity that is on a par with the rest of the world?

William Roe: I invite Alex Paterson to answer, as he led the campaign in his previous role at HIE and he now has the chance to put it into practice.

12:00

Alex Paterson: We continue to have discussions with BDUK about the pilot. The Whitehall Government has committed to getting superfast broadband to all parts of the UK. If we do a bit now, we will need to come back and do the rest at a later date. Part of the discussions that we are having with BDUK is about the possibility—I say no more than that—of going even further than it was proposed that the pilot would do so that there is less to do at a later date.

BDUK has given us a clear indication that we will have at least £10 million, and possibly more. A figure of £800-odd million has been mentioned in the context of digital switchover and broadband. We will probably put some money into the process as well. We want to put the European regional development fund money that we have obtained through our strategic delivery body into it. Quite a significant pot will be created from public sources.

The important point about the broadband pilot and broadband generally is that that public investment represents the market failure element—what the commercial market will not invest. To that can be added what the telecoms company that is successful in the procurement process will invest as part of the arrangement. Quite quickly, we end up with a £30 million to £40 million project, with which we will be able to do some serious damage in taking broadband into the Highlands and Islands. I think that there is scope for the project to be bigger. Discussions are continuing with BDUK, as part of which it will come to the Highlands next week or the week after.

I have a couple of thoughts about the longer term. Our aspiration is to get superfast broadband to all parts of the Highlands and Islands. The pilot may not get us there, but there are other ways in which we could do that. For example, just as, over many years, we have created facilities such as the community land unit and the community energy company, we are looking at the possibility of having a community broadband facility. Taking the superfast broadband pilot to 40 or 50 locations will make that last bit easier and cheaper.

We are not doing the pilot just for the sake of doing it. It is an enabling investment that will benefit Highlands and Islands businesses and communities, the university and shared services across the public sector. One of the transformational projects that we would like to get involved in is the provision of new models in telehealth, such as P4 digital health care. We cannot do that without superfast broadband. Over

the past few months, there have been five fairly significant investments in the financial business services sector in the Highlands and Islands. Without superfast broadband, it will not be possible to find new models for the development of that sector to support such growth. Having such connectivity will make the whole process of developing a low-carbon economy much easier, by helping to reduce travel.

The provision of superfast broadband will be hugely enabling for lots of different things. The market will not provide it, but we are hopeful that figures of the order that I have mentioned will at least let us do a serious pilot that will take the benefits to a very large proportion of the population of the Highlands and Islands and will provide wide geographical coverage. We have already gone down the track of thinking about how we will get the next bit done.

William Roe: Alex and I met the Faroese Government at the end of November to discuss the issue. When we talk about countries and regions that are competitive in an international environment, we must mention the Faroe Islands. Superfast broadband is already available in every premises in the Faroe Islands. Indeed, it is available 80km out to sea, which means that the entire fishing fleet can have access to it when it is at work in the ocean. In addition, 3G and 4G mobile telephony can be accessed on every road and in every premises in every part of the Faroe Islands.

What really interested us is the fact that the Faroese are already seeing the economic and population benefits of that approach. They told us that last year and the year before last, for the first time the population grew, because graduates who went off to places such as Denmark to do their degrees came back to set up businesses and grow their families in the Faroes. That population growth is taking place on the back of the provision of superfast broadband and great mobile telephony. We have done a deal with the Faroese: they will help us with gaining business and economic benefits from superfast broadband, and we will help them with the problem that they have in attracting tourists to the Faroe Islands.

We are not at the cutting edge of such developments. We are proud of what we are doing in that regard, which will undoubtedly be good for our region, but we should realise that we are still running to catch up with quite a lot of our competitors.

Ms Alexander: Has the private sector partner been selected yet? If not, when is that likely to happen?

Alex Paterson: The partner has not been selected. The procurement process started this

month, so the formal *Official Journal of the European Union* process must be gone through.

Ms Alexander: Roughly when will the private sector partner be chosen?

Alex Paterson: If normal OJEU procedures are followed, the partner will be chosen by the summer. If everything goes with a fair wind, the scheme should be deployed in 2012 or 2013, which would be at least two or three years ahead of previous indications.

Ms Alexander: It might help if you wrote to us after the meeting with BDUK to give us an update that covers the issues that we have discussed and to give a sense of whether you expect there to be a substantial call on HIE's resources to realise the project—I recognise that longer-term ambitions exist—or whether the combination of BDUK money, European money and a contribution from the investor is likely to meet most of the initial project's financial requirements.

Alex Paterson: I am happy to provide that information. We have a wider ambition to make the Highlands and Islands a digital region—we have a project called digital Highlands and Islands. We cannot get there without this crucial first step.

Ms Alexander: That is wonderful—thank you.

Christopher Harvie: I will make various points about what I called earlier a collaborative advantage with major European industrial regions on renewables—which will convert quite a lot of fragile areas into potential energy powerhouses, although they will have many associated problems—and on tourism. One is struck by comparing the enormous advantages of the Highlands in scenery and in existing investment in infrastructure such as railways with what the Swiss have done with the glacier express in Engadin, which has transformed a rural branch line into a touristic main line with enormous trains that swish along it at hourly intervals, and with the Norwegians and the Hurtigruten, which was a branch-line steamer service in the 1970s and is now a major European tourist attraction.

Highlands and Islands Enterprise cannot do such work on its own, even if you manage to annex all the nuclear geld from Dounreay. You will have to go into partnership—it is already happening for various projects—with big European concerns, such as Voith on turbines, or Deutsche Bahn and the Schweizerische Bundesbahnen to develop tourism projects that integrate hotels, airlines, rail travel and sea transport, which can enable the Highlands to achieve the potential that is mentioned in just about every write-up that people do of tourist attractions. What are your notions of a type of economic diplomacy? You will find resonance in mainland Europe, because it has the technology, more than in London.

William Roe: One distinctive feature of Highlands and Islands Enterprise is that we run a railway, which goes up the Cairngorm mountain, but perhaps that is for another day. We aim to get out of that business—we are a holding operation and we hope for fabulous winters for four or five years until the market is ready to take over running CairnGorm Mountain Ltd.

Your point, which is enormously interesting and is of strategic importance, is about how we can join up different assets to make exceptional experiences. There is growing evidence that serious visitors are looking for authentic experiences and outstanding things that they have not done before. If we—not we as an organisation, but Scotland—can offer people five-star opportunities in all the things that you describe, that will greatly strengthen the market. It will also extend the season, which is important, as there is already a trend for the seasonality of tourism to be less significant than it was before. However, even the most ambitious investors in the area have not yet found ways to do that.

On the long-term commitment to invest in the rail routes to the north and west, I and HIE hope that the fact that those routes are closest to the permanent sources of renewable energy will mean that the lines will be electrified in the same decade as the rest of Scotland's railways. It would be absurd if the Pentland Firth was generating vast amounts of energy for Britain and Europe but the rail routes to get there were still operated by diesel chuggers. I am sure that Scotland will not let that happen, but we need to see a plan for electrifying all the railways.

While I am on the subject, there is no question but that the railways will be more important in the future than they have been in the past half-century. I wonder why we do not have plans to start the next generation of high-speed rail from Inverness and Aberdeen to London and the continent. I do not see the logic of saying that the lines will terminate in Edinburgh and Glasgow. That is really short sighted. However long it might take and however difficult it might be, the ambition should be for the lines to start in the two northern cities. If this was France, they absolutely would, and they do. France has just announced that it has finished building motorways because it has got them to everywhere it needs them, and it is proposing to create 31,000km of high-speed rail in addition to all the lines that it already has. The French envisage that high-speed rail will literally touch every corner of their country and they see that as the way forward.

We have not discussed the issue in our board, but we will do so. I believe that Scotland would benefit far more than Birmingham from high-speed rail. Taking five minutes off the journey time from

London to Birmingham is not a justification for high-speed rail, but bringing high-speed lines to the cities of Scotland, including the two northern cities, would in time be quite transformational. Why would we want people to have to get off at Glasgow Central or Edinburgh Waverley and get a diesel chugger to the two important northern cities? Scotland should have the ambition to develop high-speed rail in the way that I have described, and we should build a consensus around that ambition.

Christopher Harvie: The Norwegians are planning a high-speed system for Norway, which will be very useful. You can imagine a direct line running from Bergen to Stavanger, going across the fjords, and the engineering details connected with that. It would be worth while to consult the Norwegians at this stage on the technology that they are using and the extent to which it would be applicable in northern Scotland.

William Roe: Thank you.

The Convener: When Jo Grimond was an MP for Orkney and Shetland and the House of Commons asked him what his nearest railway station was, he replied, "Bergen." [*Laughter.*]

Marilyn Livingstone: We have heard a lot about HIE's success, both today and from other witnesses at previous evidence sessions. We will be compiling our report soon—in fact, we are just about there. If we could tell the Government that there are one or two things that would help and improve HIE's performance, what would they be?

12:15

William Roe: Thank you for the opportunity to address that question. I will connect your question to the issue of the Nuclear Decommissioning Authority, which we discussed earlier. I will leave aside the amount of money that it is making available, because my point is about not the amount of money, but the concept that, when a long-established industry comes to an end, it should be responsible and should invest millions in the area that it is leaving. That is a good principle of corporate social responsibility. We would like the Ministry of Defence to establish a military bases decommissioning agency that would have scores of millions to invest in communities when it leaves them after they have served it well for more than half a century. The example of Kinloss is significant. The taxpayer has invested many tens of millions in those assets, which the MOD is proposing to walk away from or mothball. The latter option would be even worse, because that would prevent the assets from being used by the next generation to benefit the economy.

We think that it is not right that a major public agency should be able to walk away from a place

whose population has served it really well and not help to create the future. If you think that my suggestion is from another planet, look at the situation in Germany or the United States. In the United States, the Pentagon does what I am talking about all the time. It has an office of defence adjustment that is responsible for turning around the bases that the military has to leave—for whatever reason—and ensuring that the community has a civilian economy within a decade that is, if possible, stronger than the previous military economy.

There are areas in the Highlands and Islands, such as Unst, where you can still see and feel the scars of previous defence closures. Unst is gradually being turned around, but it is a hard job and no significant special funding has been made available to do it. There are other facilities, such as that at Machrihanish. There has, of course, been mixed news in Kintyre, although there is probably more good news to come in the years ahead. The facility at Machrihanish is a huge asset—it has one of the longest runways in Europe and there is a vast amount of land that could be turned into an economic asset for Kintyre. However, without a sense of responsibility on the part of the MOD, only small-scale things are likely to happen. The suggestion that I am talking about is one on which progress should be made, but that is in the hands of the United Kingdom Government.

As I hope that you have understood in the time that we have been with you, we are decisively an economic and social development agency and not just a business development agency. The things that we do that are strategic and enabling and transformational, such as our work on broadband, create the conditions in which businesses and communities can thrive. That kind of strategic role is important.

The creation of UHI is the start of something, not the end. It is the end of a campaign, but it is the start of something really important. Alex Paterson said that what matters is not putting the broadband in the ground, but getting the educational, economic, health and social benefits from it. The same thing is true of the university. I would say to the Scottish Government and others that most of Scotland's universities have assets of their own—the old ones obviously have assets that they have built up over centuries. The entire cost of the creation of the University of Stirling—after the making available of the land of the Airthrey estate—was paid for by the UK Government, through the Scottish Office. All the staff who were first employed by the university were fully funded as part of the start-up of the university. Most universities have endowments, assets or land. UHI has none of those. It is really important for our region that UHI is well invested in

over the next decade, so that it has the chance to become one of Scotland's leading universities over time. Otherwise, the pressures on public spending now mean that there is a risk that UHI, in which we have invested a lot, will not be able to accelerate at the speed at which everyone would like.

A third point is about community ownership. The success of community ownership around the Highlands and Islands is widespread. Some places have moved faster than others, but in almost all places it has been successful. We are at a halt at the moment, because the investment that was available to make community ownership possible—in the community land fund, the Big Lottery Fund and so on—is not available any more. However, there are communities around the Highlands and Islands and in other parts of Scotland that would want to move down that route if they were given the opportunity.

The challenge for the new Scottish Government will be around how an investment system could be created that will enable communities to take ownership not necessarily of their land, but of assets that will bring them a good future. If a party in government or the whole Parliament was willing to endorse that concept of community asset ownership as a way to strengthen communities in the long term and make them less dependent on public grants, that would be a real prize for Scotland as a whole.

I do not believe that this is a party-political issue, because the benefits are economic, social, demographic and about democracy. That movement represents the kind of country that many of us want to see. New policy and a new resource package need to be put in place. That ought to be of interest to the banks as well as to Government. It is not about hand-outs and long-term subsidies. It is quite the opposite: it is about investing in assets, which, in the communities' hands, can become something of value.

Local authorities and health boards probably cannot afford to and do not want to hang on to all the assets that they have. The transfer of public assets into communities' hands is really hard at the moment, because of the regulatory framework that exists. I have to say that John Swinney has tried hard to find a way through this blockage, but he has not done so yet.

I hope that, after the election, the Parliament will be willing to turn its attention to how a regulatory framework and investment system might be put in place that could accelerate community asset ownership for the future. It is a great feature of modern Scotland and I think that it can go very much further.

The Convener: I have a final question about the military bases in Moray. Have you had any discussions with the MOD about whether there is a potential continued military use for Kinloss and, if so, what investment would be required to make it a realistic option? There is talk of its potential use as an army base, for example.

Alex Paterson: The potential for Kinloss to be used for other military applications is still there, but I do not think that a decision on that will be taken any time soon. The Moray task force, in which our area manager Calum MacPherson is heavily involved, is meeting regularly. In fact, members of the task force are on first-name terms with officials from the MOD and the Treasury, which are closely involved. The approach is multifaceted. One aspect is to work with them to try to get them to take responsibility for the Kinloss decision. Equally, the big prize, for which we must collectively keep our foot on the gas, is the retention of Lossiemouth, which would be hugely significant. Close dialogue with the Scottish and UK ministers and with officials in the MOD and the Treasury is on-going.

The Convener: That concludes the questions. Thank you for coming to the committee and for your helpful evidence.

12:24

Meeting suspended.

12:26

On resuming—

Work Programme

The Convener: It is traditional for the committee to produce a legacy report, which, we hope, the incoming committee in the new Parliament will look at to help inform its work. Do members agree that I can contact the Scottish Government to ask for updates on the various reports that we have produced, which can then form part of the information in our legacy report?

Members *indicated agreement.*

The Convener: Next week we will be taking evidence on the enterprise network inquiry, particularly in relation to urban and rural regeneration, and on the UK Energy Bill legislative consent memorandum.

Meeting closed at 12:27.

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