

# **ENTERPRISE AND CULTURE COMMITTEE**

Tuesday 24 May 2005

Session 2

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## ENTERPRISE AND CULTURE COMMITTEE 12<sup>th</sup> Meeting 2005, Session 2

### CONVENER

Alex Neil (Central Scotland) (SNP)

### DEPUTY CONVENER

\*Mike Watson (Glasgow Cathcart) (Lab)

### COMMITTEE MEMBERS

\*Richard Baker (North East Scotland) (Lab)  
\*Chris Ballance (South of Scotland) (Green)  
\*Susan Deacon (Edinburgh East and Musselburgh) (Lab)  
\*Murdo Fraser (Mid Scotland and Fife) (Con)  
\*Michael Matheson (Central Scotland) (SNP)  
\*Christine May (Central Fife) (Lab)  
\*Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD)

### COMMITTEE SUBSTITUTES

Mark Ballard (Lothians) (Green)  
Fiona Hyslop (Lothians) (SNP)  
George Lyon (Argyll and Bute) (LD)  
Margaret Jamieson (Kilmarnock and Loudoun) (Lab)  
Mr Brian Monteith (Mid Scotland and Fife) (Con)

\*attended

### THE FOLLOWING GAVE EVIDENCE:

Ken Abernethy (Argyll and the Islands Enterprise)  
Janet Brown (Scottish Enterprise)  
Terry Currie (Scottish Enterprise)  
Ian Howie (Scottish Executive Enterprise, Transport and Lifelong Learning Department)  
John Ireland (Scottish Executive Enterprise, Transport and Lifelong Learning Department)  
Jackie Wright (Highland and Islands Enterprise)

### CLERK TO THE COMMITTEE

Stephen Imrie

### SENIOR ASSISTANT CLERK

Douglas Thornton

### ASSISTANT CLERK

Seán Wixted

### LOCATION

Committee room 1



## Scottish Parliament

### Enterprise and Culture Committee

*Tuesday 24 May 2005*

[THE CONVENER *opened the meeting at 14:02*]

### Interests

**Alex Neil (Central Scotland) (SNP):** I welcome everyone to the 12<sup>th</sup> meeting this year of the Enterprise and Culture Committee. I will deal with housekeeping matters first. I ask everyone to switch off their mobile phones. We have received no apologies. In about half an hour, nine clerks from the House of Commons will join us in the public seating area—no doubt they are coming to see how the job is done well in Scotland.

**Christine May (Central Fife) (Lab):** They will listen and learn.

**The Convener:** Absolutely.

I welcome Jamie Stone back to the committee—after a brief absence during which he was a member of a more junior committee—and I ask him to declare any interests.

**Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD):** Thank you for your cordial welcome. It is a great pleasure to be back. I enjoyed my work on this committee in the past and I intend to do so again. Rather than chunter through the various bits and pieces, such as my brother's small cheese business, which seems to be a standing joke in Parliament, I refer members to my entry in the register of members' interests, which should cover the matter.

## Items in Private

14:03

**The Convener:** Does the committee agree to take item 5 in private?

**Members** *indicated agreement.*

**The Convener:** Does the committee agree that we should consider in private at a future meeting our approach to fact-finding visits as part of our inquiry into business growth?

**Members** *indicated agreement.*

## Business Growth Inquiry

14:04

**The Convener:** We will take evidence from two panels of witnesses. I welcome our first panel: Janet Brown and Terry Currie from Scottish Enterprise; and Jackie Wright and Ken Abernethy, who are here to represent Highlands and Islands Enterprise, although Ken Abernethy is the chief executive of Argyll and the Islands Enterprise. We received written submissions from Scottish Enterprise and Highlands and Islands Enterprise. The witnesses will give a short presentation, after which we will ask questions. I will give equal time to both organisations, but I would prefer it if one person from each organisation would do the talking—we cannot let four people answer every question.

**Janet Brown (Scottish Enterprise):** I have got the message that I should give a short presentation, so I will be brief. There is, in any case, a lot of meat in some of the documents that the committee has already seen.

Today, we will talk about the idea of creating an environment for business growth in Scotland. Obviously, the context of our discussion is the smart, successful Scotland policy which, as everyone is aware, is the strategic direction from the Executive to the enterprise networks. A significant component of that, obviously, is growing businesses, which involves the culture of enterprise and the creation and establishment of companies that will become businesses of scale.

The paper that we have given the committee examines the environment in which businesses grow, and considers various places in the world in which businesses are successfully created and are able to grow beyond a certain size. We will not deal with that in any detail at the moment, but I will touch on various questions: What does that environment mean in terms of the people who are involved in successful companies and growth businesses? What is the physical infrastructure that businesses need to enable them to grow? What knowledge must they access and develop to allow them to become businesses of scale? There is a need to access finance at all stages of business growth, not only when a business is starting up, so how can we ensure that businesses can access finance quickly when they need it to take them to the next stage? It is important that companies understand market connectivity, so how can we ensure that they understand their local and international markets? How can we ensure that they can connect with those markets, understand what their competitors are doing and, if possible, bring the market to their homeland?

The issue of how networks fit into a business's success is important. It is common knowledge that, if you know people in different areas or markets, you are much more likely to be successful in those markets; that can be seen around the world. The networks extend beyond the market through the supply chain, as companies ensure that they have in place the networks that enable them to access the capacity they need if they are to take part in an area of growth.

You will not see the word “innovation” in our presentation; that is not because innovation is unimportant but because innovation is buried in every element. If people are not innovative in terms of the physical infrastructure, knowledge base, financial provision, networks and markets and the associated products, businesses will not grow. The innovation component underlies everything that we are talking about. The approach that has been taken by Scottish Enterprise in this area is to do with how we can work with partners to understand the requirements for business growth and how we can identify areas in which Scotland can make improvements. We are examining the performance gap in Scotland to see where our biggest challenges are, with a view to finding out where we, in collaboration with our partners in the public and private sectors, should focus our efforts in order to close that performance gap. We are identifying areas in which Scottish Enterprise, as a public sector organisation that can pull certain levers, can have maximum impact and areas in which it is best that the private sector either be involved or do all the work.

It is important that we provide both direct and leveraged support. In relation to provision of finance, for example, it is impossible for the public sector to fund business growth to the extent that we would like it to if we are to have a strong and vibrant economy. That is why we have to lever in support from others as well as provide direct support. That applies not only in this arena but in many different dimensions.

We examine an overall industry sector and we use a clusters approach in order to identify areas of opportunity in which Scotland can play a significant role in the global marketplace. We work with industry, academia and parts of government to strengthen the sector and discover ways in which Scottish Enterprise can facilitate its growth.

Scotland has key industry sectors. We are carrying out a review of our clusters and industries approach with a view to identifying the best growth areas. That does not mean that we will not work with businesses in other areas; rather, it means that we are looking for areas of maximum opportunity into which we can leverage the input of others.

What are the major challenges that we see for Scotland? First and foremost, people are fundamental to everything that we do and to everything that a business does. We must focus on the quality of entrepreneurial and leadership skills within indigenous companies or in companies that are here through foreign direct investment deals, and among people who want to start businesses, so that they can understand what running a business can be like and what they can gain, and can aspire to doing something different. The link is experience. There are great people in Scotland, but the number of people who have international experience or experience of large companies is not as high as we need it to be. That, along with global connections, is a significant component of what we need to be thinking about.

The second major challenge is to do with business enablers. First, as I said earlier, we need to consider the accessibility of finance at all stages of business growth to ensure that there is a pipeline from business start-ups all the way to multinational companies, which we would like to see in Scotland in the future. We need a strong infrastructure and a business-friendly environment that enables and facilitates the establishment and growth of businesses.

**Jackie Wright (Highlands and Islands Enterprise):** I will not repeat what Janet Brown has said, because all the factors that she talked about in her presentation hold good within the Highlands and Islands.

I will take a few minutes to describe business growth in the Highlands and Islands. The HIE area accounts for more than 50 per cent of Scotland's land mass—53 per cent of the geography of Scotland is in the north—but for only 8 per cent of Scotland's population. Our sparsity of population is akin to that of the far north of Finland and northern Scandinavia. We also have 90 inhabited islands.

I turn to some of the factors that people have to deal with in the Highlands and Islands. If we took the map of Britain and swivelled it around using London as the axis, Lerwick would end up where Milan is. As of last night at 5 o'clock, people can fly from London to Milan for £100 in two hours and to Lerwick for £400 in five hours. There might not be many people in London who want to spend time in Lerwick, but many businesses in Lerwick want to export and many people living in some of our more remote locations have to add that sort of price on to everything from family trips and holidays to visits to major cities.

Inverness is a new and burgeoning city, but it has no university, which, given the importance of innovation and research and development, is a major inhibitor of business growth in the Highlands and Islands.

One of the good-news stories in the Highlands and Islands is about population. The slide that the committee is looking at covers 150 years of population statistics in the Highlands and Islands. Members will see that in the first 110 to 120 years we had significant and steady population decline, which stopped around 1970, after which we saw significant population increase. I refer to the areas where population is growing and the areas where it is declining. The two key colours on the slide are bright red and dark blue. You can see that the population is growing in our city and our town centres, but there remains significant population decline in parts of the Highlands and Islands—most notably in the Western Isles.

I am conscious of the presentation that you received from Professor MacRae a few weeks ago, in which he talked about the missing young population in Scotland. The diagram on the current slide shows the age-scales in Scotland and the Highlands and Islands. We reckon that the thinner waist—if you will forgive me for putting it that way—in the Highlands and Islands amounts to about 10,000 young people missing from our economy. That is, perhaps, because we do not have a university. The University of the Highlands and Islands Millennium Institute is a key project that will help business growth in the area, not just by retaining young people in the area but by attracting youngsters to the Highlands and Islands from elsewhere.

14:15

When Professor MacRae gave evidence to the committee's inquiry, he mentioned small businesses in Scotland. In our area, more than 85 per cent of businesses employ fewer than 10 people. I have a graph that presents the matter in a slightly different context by showing that almost 30 per cent of the people who work in the Highlands and Islands work in businesses that employ fewer than 10 people. At the other end of the scale, fewer than five businesses employ 200 or more people—that figure unfortunately includes the Ministry of Defence Royal Air Force base at Kinloss, which will close in the next few years. Such figures demonstrate the environment in which we work.

I will move on to what we do, which I split into three key areas: business starts, growth and retention. Business starts offer one of the only ways of generating employment in remote and rural areas, so we have assisted business starts in the Highlands since the early days of the enterprise allowance scheme, when the network was set up, and we currently offer assistance through the HIE start programme. We helped between 300 and 400 businesses a year until about three years ago, when we used European

money to focus on business starts. Although our number of business starts is quite low in comparison with Scottish Enterprise, the number per capita is quite high. Many start-ups will not register on Scotland's business start-up statistics because they are not VAT-registered; they are often small lifestyle businesses, but they are important nonetheless. We aim to ensure that there is a consistent churn of business start-ups, so that we get more and more of the 5 per cent of cream that will provide the business growth that we seek.

There are some, but not many, large businesses in our area. For example, Vestas-Celtic Wind Technology in Campbeltown operates in the renewable industry sector. For HIE, securing business growth and businesses of scale is as much to do with enabling a 10-man business to grow to be a 15 or 20-man business as it is to do with enabling Vestas-Celtic to continue to employ 150 or more people in Campbeltown. Significant progress has been made in the life sciences sector. The company that started as Inverness Medical and is now Lifescan Scotland, a member of the Johnson and Johnson group, came to Inverness with modest assistance but through the influence of the HIE network. We were told that we might expect the company to create 600 jobs, but there are now 1,200 jobs in Lifescan Scotland and the company is the second world player in the diabetes testing-strips market. The company will take on 100 more people this year and is attracting young people to the Highlands and Islands to take up highly-paid jobs, particularly in research and development—it employs about 200 staff in R and D in Inverness.

We do not yet have a university, but we have a world-class player in research and development in the Scottish Association for Marine Science and we are looking for business growth in that area. The SAMS marine laboratory is in the beautiful setting of Dunstaffnage, just north of Oban. I think that the organisation has been around for more than 20 years, but we are now witnessing spin-offs from SAMS Dunstaffnage, in the form of three biodiscovery companies, each of which employs only 10 or 15 people but is nonetheless attracting young people to the area.

The retention of older industries is also important to us. The fish-farming sector in Scotland, which is going through a difficult period, is predominantly found in the Highlands and Islands and covers the entire United Kingdom market for fresh salmon, so it continues to be an important industry as it undergoes substantial restructuring. There is still a major shellfish industry, which exports its products to countries throughout the world.

Our contact-centre industry is not on the scale that we have witnessed in other parts of Scotland,

but it works on higher-tech types of business process outsourcing. With the University of Strathclyde, we have set up the centre for business process outsourcing, which will examine business processes throughout the world and identify how we in Scotland, including the Highlands and Islands, can steal a march on the rest of the world.

That said, however, and bearing in mind Professor MacRae's evidence to the committee, Scotland lags behind the rest of the UK on wages and productivity, and the Highlands and Islands lags behind Scotland by 10 per cent in terms of weekly earnings. Slide 12 shows that weekly earnings in the Highlands and Islands have increased during the past five or six years, but they still lag behind the rest of Scotland. On productivity, we lag behind by 20 per cent, despite all our best efforts. That is largely because we have a preponderance of micro-companies that find it difficult to achieve productivity gains.

Our strategy for a smart, successful Highlands and Islands will be launched in the next month. That reflects the fact that we have an additional strategic goal in our basket, which is the strengthening communities agenda. Nonetheless, our aspirations very much follow what Janet Brown said; she talked about people and I talk about population. We hope to see upwards of 10,000 more people working and living in the Highlands and Islands in the next 10 years, which perhaps means population growth of 60,000 to 70,000 people. We desperately need the UHI Millennium Institute to achieve all that it wants to achieve, because only through that will we begin to see the development of innovation, research and commercialisation in the Highlands and Islands.

As part of the preparation for our strategy, we recently carried out one of the biggest-ever independent surveys of businesses and householders in the Highlands and Islands. At the top of everyone's list of things that are required if we are to see growth in the Highlands and Islands is transport, whether it be ferries, buses, airports or roads. The integration of those modes is obviously key, too.

**The Convener:** I thank both witnesses for expanding on some the points that you made in your submissions. That was helpful.

**Murdo Fraser (Mid Scotland and Fife) (Con):** I have lots of questions but I will try to restrict myself to two or three so that others can come in.

I start with a question for Scottish Enterprise. Thank you for your presentation. I will pick up on a couple of the points in your submission. First, the availability of venture capital is clearly a barrier for many small businesses that seek to expand. On venture capitalists, you state:



"The number of VCs regularly active in the Scottish market has dropped significantly in the past 5 years."

Why is that?

**Janet Brown:** Much of the movement in the venture capital market was a response to what happened in the general global environment. Venture capitalists have moved upmarket and make more big deals and fewer smaller ones. A lot of the deals in Scotland are small deals, which require a lot of effort by VCs. Companies such as 3i and Scottish Equity Partners continue to do deals, but they are doing much bigger deals. Need in Scotland is at a lower level, for deals of between £500,000 and £1 million. The gap has resulted from VCs moving upmarket.

**Murdo Fraser:** I think I follow that.

**Christine May:** I have a supplementary question on that. Recently, committee members met representatives of the European Commission in Brussels to talk about state aids and regional assistance. Do you have a précis of any evidence that you might have given to the Department of Trade and Industry or the European Commission on the matter? One of the points that we heard was about the rules around support, albeit at a low level, for business.

**Jackie Wright:** We always comply with state aid rules. However, in our view they were not written for tiny businesses, but for businesses that operate in global markets. We have a genuine feeling—my colleagues have much more information on the matter, which we would be happy to submit—that we are from time to time stymied by state aid regulations' being imposed, particularly in the rural context, on tiny businesses.

**Murdo Fraser:** My second question is also for Scottish Enterprise. I was interested that in your presentation you talked about prioritising support so that it goes to what you called areas of maximum opportunity in the market. We took evidence two weeks ago from the Glasgow Opportunities enterprise trust. It was critical of what it described as the "picking winners" strategy. Could you expand on that strategy and say how you try to identify sectors of the market that will have high growth? For example, 15 years ago everyone said that electronics was the next big thing and all the money went into electronics, which was fine for a while and we created lots of jobs, but over the past five years electronics has experienced a major downturn. How can you say with confidence what you think the growth sectors will be in the future?

**Terry Currie (Scottish Enterprise):** First, we have a policy of market segmentation. I do not think that we can be criticised for that because almost every organisation, in business or otherwise, segments its marketplace to some degree.

There are 250,000-odd businesses in Scotland. It is clear that we are unable to address all those businesses equally, so we must attempt in some way to identify the businesses that we believe can make a maximum impact on our economic well-being. For the past few years, we have endeavoured to do that by identifying a number of characteristics, such as the vision of the management team, entrepreneurship, commitment to innovation and so on. We have identified a number of characteristics that evidence suggests are key characteristics of companies that are capable of growing. We have recently taken that a step further as we have recognised that we have to identify hard inputs to confirm that companies are growing. We examine sales levels of individual companies and identify the potential sales growth over three-year periods so that we can judge whether they are growing along the lines that we thought they would. If they are not, we have to acknowledge that we have identified that some companies are not growing as quickly as we thought they would and then identify other companies.

The most important aspect of the segmentation policy is not that we pick winners and deal with only the few. Rather, it is that we recognise that intense work is required with a smaller number of companies while acknowledging that we must continue to develop the pipeline of companies that are capable of growing and, thereby, make our services much more accessible to the wider business community.

**Murdo Fraser:** If you identify in some detail the potential for growth, why are private sector investors not doing the same things as you? Why are venture capitalists not conducting a similar exercise? I will turn the question on its head: if you are so good at this, why do you not go off and become a venture capitalist and make lots more money?

**Terry Currie:** The answer to that lies in there being different *raison d'être*. Venture capitalists exist to make money and are all about picking winners. We are not all about picking winners. In fact, the answer to your second question is very much linked to your first question.

**Murdo Fraser:** Okay. Thank you. I think I follow that.

I will ask one more question—before I stop monopolising the debate—of Highlands and Islands Enterprise. I was interested in what you said about population because I was one of the young people who grew up in the Highlands and Islands, left at 18 and, unfortunately, have never gone back.

**Christine May:** Go, go.

**Mr Stone:** Stay, stay.

**Murdo Fraser:** I thank committee members for their warmth.

I was interested in the population trends that were shown in the population graph. There was a turnaround in the trend of population decline in the mid to late 1970s when there was a steep increase. Can you explain some of the factors behind that? Surely it was not all down to Mrs Thatcher.

**Ken Abernethy (Argyll and the Islands Enterprise):** Part of the reason was that Highlands and Islands Development Board was starting to come on stream. Oil had also appeared, which had a significant effect in the Moray firth area. Those two factors account for the bulk of the population increase.

14:30

**Chris Ballance (South of Scotland) (Green):** I would like to pick up on Murdo Fraser's point about venture capital. I recently visited a small engineering company that is growing quite fast and which is looking for major companies that can work with it on specific projects, particularly with regard to marketing. It is distinctly not looking for venture capitalists, because it feels that the future lies in being an engineer-led company that works with large companies, and that strong economies and growing businesses tend to be engineer-led at the cutting edge, rather than being venture capital and accountancy-based. Do members of the panel have any comments on that?

**Ken Abernethy:** That is an admirable sentiment, but it will clearly limit the company's capacity for growth. It will need capital to grow, and if it wants to use other people's money it will have to engage in some process that makes that transparent. It is just a devil that you have to live with if you seek rapid growth.

**Janet Brown:** Growth companies tend to be engineering-led rather than accountant-led, but what we are talking about here is where the money comes from to enable whoever is leading that company to take it forward. Either way, you need intelligent money. You do not just need money; you need money that comes along with technical or marketing expertise that brings something to the company as well as just funding. Whether a company is led by an accountant or a technologist depends on the type of relationship that it needs in terms of the money that it is bringing in. It is a balance between the two.

**Chris Ballance:** The company's point was that it wanted to remain an engineering-led company while allowing bigger companies to exploit its products in partnership with it, rather than handing over control of the company itself to venture capitalists.

The other question that I wanted to ask relates to the written evidence about the way in which the social economy and the social enterprise economy have been burgeoning in the Highlands. Why do the witnesses think that is? Do the witnesses from Scottish Enterprise have anything to add on the subject?

**Jackie Wright:** One reason is that there are gaps in the market. The social economy in the Highlands and Islands can fill gaps in services and sectors that the private sector will not fill. There is market failure. Our remit has always enabled us to assist the social economy, either by grant funding or by capacity building. You will see from the evidence that we have submitted that that sector is a significant part of our economy. It has grown from village shops, in the earliest days of the Highlands and Islands Development Board, to community companies that own renewable energy assets and have good potential income streams that will give them stability in the long term.

Ken Abernethy has been and remains actively involved, from a local enterprise company perspective, in one of the more rural and remote areas where the social economy is quite strong, so he might like to comment.

**Ken Abernethy:** There are a number of areas where the services that are normally provided by the private sector simply cannot be supported. The provision of petrol is a good example. Petrol on Coll and Jura is delivered by a community business. A private sector operator simply would not get a sufficient return on the assets.

With reference to energy, there is a renewable energy scheme on Gigha that will give the island an income stream of about £70,000 a year, which will transform the island's long-term prospects.

**Terry Currie:** From a Scottish Enterprise point of view, if the truth be told, social enterprises have historically been quite far down our agenda, perhaps for the reasons that I mentioned earlier such as the volume and scale of the marketplace. However, within the past five years there has been a growing recognition of the importance of that sector, and some of the key growth organisations that we were speaking about earlier are in the social sector.

For example, housing associations, which have a major role in communities, are substantial businesses in their own right and have strong growth capability. We tend to focus our efforts on social enterprise in such areas, as well as focusing on traditional start-up areas. Social enterprise is much higher up our agenda than it used to be.

**Mr Stone:** I want to explore two ideas: the first is to do with the macro scale; and the second is about matters on a smaller scale. HIE was set up to halt depopulation, as Jackie Wright indicated in

her presentation. HIE wants to encourage entrepreneurs to set up businesses in, or to move into, remote parts of the Highlands. However, a diminution in local health services—I have spoken publicly about maternity services in Caithness, general practitioner cover and access to dentists—could fly in the face of what HIE is trying to do, because that would discourage people from coming to or indeed staying in the north. To what extent does HIE co-ordinate with services such as health? Is it able to advise ministers and people in power that measures that might not be directly concerned with its activity are hindering what it is trying to do?

**Jackie Wright:** Such matters are well within our sphere of influence. There are active community planning partnerships in which such conversations regularly take place. It is fair to say that the further away from the Highlands and Islands decisions are taken, the less joined up the decisions are. Progress can be made if there are clear goals and aspirations towards which adjoining and partnership agencies can work. For example, when Alcan Smelting and Power UK closed its smelter in Kinlochleven after 100 years of operation, the unemployment statistics did not move, as a result of the joint work of most of the agencies involved. The village is now burgeoning, after having a paternal employer for 100 years.

You are right to point out that in some areas of Government activity the joined-up approach does not work as well as it should do. It is not for us to be publicly critical, because everyone has their own agendas and priorities and must work within their budgets. However, two issues that come up again and again in the surveys that we carry out are health care and water and sewerage. In the islands of Orkney, for example, there might be little infrastructure development in the near future, until the water and sewerage plans catch up.

**Mr Stone:** I understand that you cannot jump up and down about matters that are in the realm of raw politics, but I hope that you at least use your influence privately—you know where I am coming from.

I am still considering the macro scale. What stage have you reached in encouraging UHI to connect with, for example, the United Kingdom Atomic Energy Authority at Dounreay, perhaps via the North Highland College? We have all talked about the possibility of developing faculties of robotics or the environment in UHI. It should be possible to do a lot on the back of decommissioning.

**Jackie Wright:** UHI is focused on securing degree-awarding powers and university status by, we hope, 2007. We work closely with the institute on that front, but we also work with it on its research and development strategy, which is

ambitious and wide ranging and includes areas such as decommissioning.

The North Highland College is involved in the trials and testing facility. Some committee members might not be aware that, as part of the run-down of Dounreay, we and NHC set up a decommissioning centre, which is a huge building in which some of the most up-to-date research and development on how nuclear power stations can be decommissioned is going on. Practices and procedures have to be trialled and tested before they can be used in Dounreay. The trials and testing facility in Caithness is a key part of that.

The whole research and development ambition of UHI is important, because it cannot be a teaching-only university. We believe that we have to focus on areas of research and development in which we can have an edge. There is no point in our simply reinventing the wheel in relation to the excellent research that is happening in other areas of Scotland. Nuclear decommissioning and renewable energy are two of the areas on which we would like to see UHI leading, along with health sciences, where we also have an edge.

**Mr Stone:** My final question is about considering the issue the other way round. You were right to say that encouraging young people to set up small businesses is one way to keep them in the area. However, running a small business, such as a hairdressers, can be quite a lonely occupation, and people do not necessarily have time to do the VAT and so on—if, indeed, the business is that big. The HIE network—this probably applies to Scottish Enterprise too—has rules governing how it can assist businesses. There are definite parameters setting out assistance that you cannot give to retail businesses but which you can give to manufacturing businesses. Owners of small businesses ask me what they can do, and I have to say, “Those are the rules.” Are there plans to change or re-examine the rules? Sometimes I feel that we could be doing more.

**Jackie Wright:** That goes back to something that Terry Currie said. We do not have quite as many businesses as the Scottish Enterprise area has, but about 30,000 businesses operate in the Highlands and Islands. We have neither the human nor the financial resources to work with all of them. On grant intervention, which is probably what most of the business people to whom you have spoken were talking about, displacement is a factor that, as is made clear in our management statement, we have to take into account. Some sectors of our economy are more displacive than others. A high level of displacement takes place in the service sector, which is what you are referring to. There is simply no benefit in our assisting one hairdresser to put another hairdresser out of

business. We try to ensure—this is perhaps easier for us, given the lower number of business start-ups—that good business start-up advice and information is readily available to anyone who wants it. We are always reviewing our policies and procedures on the sectors that we want to assist. We are conscious that we are trying to drive forward business growth and productivity; that is our strategy.

**Ken Abernethy:** I want to pick up on the final point that Jamie Stone made. We assist service industries in the Highlands and Islands in two ways. People perhaps equate assistance with financial assistance, but any business is entitled to good business advice and can access it from any area. Businesses in sectors in which there would be displacement—typically service industries—benefit from an expansion of the economy; they live on the size of the economy. Therefore, all the assistance that is given to the area assists those who participate in the service sector. They can be assisted in two ways; it is just that people do not quite see it like that.

**Terry Currie:** We do not have any bias against retail businesses. I cite two examples. We have a young person's start-up grant—those in retail qualify for support—and many of our retail operations have been supported with trainee placements over the years. Ken Abernethy talked about general business advice, which is perhaps the most important form of assistance. The important point is the point that Jackie Wright made: it is not about bias against the retail sector but about business viability. It would not be a smart idea to set up a chip shop if there were already four in the same street, so people would be advised against doing so. That is not bias against the retail sector; it is common-sense business viability.

14:45

**Mr Stone:** Perhaps. However, let us say that somebody wants to set up a new business making creels in the Western Isles—

**Christine May:** Creels?

**Mr Stone:** Lobster pots.

**Christine May:** I thought that they were baskets for donkeys.

**The Convener:** Cheese is a lot easier to understand.

**Mr Stone:** Someone who starts up a new business making lobster pots in the Western Isles will be in competition with a lot of other people who also make lobster pots. What is the difference between that person and someone who wants to open the fourth chip shop in a street?

**Terry Currie:** It must be to do with the potential size of the marketplace. How far and wide can the product be sold? The extent of the market that the chip shop would be in is local and limited and can stand only a limited amount of supply.

**Mr Stone:** I think that I need some more convincing, but I will leave the matter there for now.

**Susan Deacon (Edinburgh East and Musselburgh) (Lab):** How do I follow that?

Jamie Stone explored the issue of how we can foster joined-up, strategic thinking at the regional level in the context of the Highlands and Islands. I would like to extend that to a wider Scottish context.

I was struck by the aspirations that the witnesses have shared with us in the context of the Highlands in relation to tackling infrastructure development and development constraints, for example. Those issues manifest themselves in other parts of the country, albeit with different consequences. I will be careful not to stray as far into constituency terrain as one or two of my colleagues might have done but, this week, the second Edinburgh city region conference is taking place. That is an attempt that is being made by a range of agencies, including the enterprise network, politicians of all hues and various others, to come together to try to achieve some joined-up thinking. However, by its nature, the conference is an ad hoc way of doing that. Do the witnesses have any thoughts about how we can foster more of that strategic, joined-up thinking at a regional level? We have various national institutions that can do that on a Scotland-wide basis, of course, including the Scottish Parliament at a high level and community planning partnerships at a lower level. However, particularly since we lost the old-style regional authorities and so on, people in regions across the country are having to invent mechanisms and forums to do that thinking at a regional level. Would the witnesses—particularly the Scottish Enterprise witnesses—like to share their thoughts about that issue?

**Janet Brown:** You have touched on two significant points. We have strong cities and it is important to understand what a city's impact is on the surrounding region and how the region can play into the economic development of that city. The other point is how the cities play into the agenda of Scotland. We must not forget that Scotland is not that big. We need to understand how the regional component fits into the national agenda.

In Scottish Enterprise, we are discussing what the strategy for city regions should be, how that should play into the surrounding communities in a way that is broader than the individual locus, how

the various aspects of the surrounding environment can play into the agenda of the cities and how the cities can play into the agenda of Scotland. All those dimensions need to be considered.

Health is also important. If we are saying that the life sciences industry provides a good economic vision for Scotland, we must think about how we can use that to increase not only the wealth of Scotland but the health of Scotland. We have to work in a regional and a sectoral dimension to ensure that all the various players understand what they need to be doing, where we all need to go and what the vision needs to be.

**Susan Deacon:** Thanks for that answer. I would love to probe it further but I had better move on to the other question that I wanted to raise.

Management skills and capacity are explored on pages 6 and 7 of the Scottish Enterprise submission. The submission touches on a number of interesting issues. It says that there are issues to do with management competency and capacity, but that those are not general problems. The submission states that

“there is no conclusive evidence that the supply of management skills is inadequate to support faster growth. However, there are indications that Scottish managers are more concerned with internal growth dynamics rather than growing the business”.

Can you expand on the evidence that is available and tell us more about your view?

The submission also refers to work done by Porter and Ketels, which says that

“the quality of management skills *could*—  
you stress “*could*”—

“be one of the factors that explain the UK’s relatively poor performance”.

Would you highlight anything distinctive about Scotland vis-à-vis the UK? What steps might be taken to address such issues? I ask you first to elaborate on the nature of the problem.

**Janet Brown:** We should consider the work of Futureskills Scotland. The overriding view is that we have sufficient skills in Scotland: the skills are sufficient for the purpose. However, if we want to grow the economy and businesses in Scotland, we must question whether the vision of businesses and the level of targets that they set are sufficient to allow that to happen. Such vision must come from management. The evidence is that businesses and management in the UK in general are very good at dealing with incremental change and at addressing how to handle and manage a business well, but that they are less good at looking for opportunity, grasping it and growing the business.

There are lots of reasons why that might be the case. Arguably, one is that we have lots of small businesses. The transition from a very small business of 20 people, in which the founder or manager knows everybody, to a business of 200 people, in which he does not know the guys he is hiring, is a huge change. One aspect of the challenge for management and leadership is the size of our companies. Another aspect is associated with people having experience of being in a company of a significant size and therefore understanding the skills that are required in such a business. Because we do not have many such businesses, there are not the knock-on effects that there would be in a region that has large companies. There are people in large companies who, because they no longer want to be in those companies, start small ones, but they have the experience base on which they can build.

The issue is not simple, and nor is the solution. One element is management and leadership experience training. That is not just about coursework but about experiencing what management and leadership mean. There is also a need to pull people into Scotland—global Scots and non-Scots—who have such experience and who can get jobs and/or start up businesses here, which allows them to contribute to the economy and fulfil their career aspirations. It should not be the case that they just come back to Scotland to start something; they should come back here because there are great jobs for them here. That reflects the chicken-and-egg nature of the discussion. It is crucial that we work on the issue from both ends.

I do not know whether that answers your question.

**Susan Deacon:** It certainly partially addresses it, but I am still struck by the issues that you have raised. You state further on in your submission that

“There is sufficient evidence to show that there is a need for some collective action in Scotland to improve awareness of, demand for and supply of management and leadership development activity.”

That raises the question of who might spearhead that collective action, what it might look like and what particular actions might flow from it in respect of the training products and environment that might be provided and the means through which such activity might be provided. I am particularly interested in your view of the role of our further and higher education institutions—particularly our business schools.

**Janet Brown:** There needs to be a collective effort. It is about businesses getting involved. Scottish Enterprise can say that there is a problem, but businesses need to want to be involved.

There is no point in sending a manager on a course if he does not want to go; in fact, there is sometimes no point in sending a manager on a course at all, because he needs to experience the change and the differences. As I said, a group of people needs to sit down, come to an understanding of the challenges and then jointly develop an approach that will allow them to start addressing those challenges. Because of the need for formal classes, the components of any such approach will involve further and higher education institutions and business schools.

One could argue that there should also be a mentoring element. For example, in the high growth unit, which is in Terry Currie's area of Scottish Enterprise, one of the methods of learning and teaching leadership is to put mentors on the boards of the companies that the unit deals with. There are different approaches for companies of different sizes. However, it is important that the matter is on the agenda. The people component is very significant, but it is not the responsibility of any one organisation—it is everyone's responsibility.

**Susan Deacon:** I do not take issue with that point. Nevertheless, someone has to get the ball rolling and facilitate that conversation. Is the conversation taking place? If not, how might it be made to take place?

**Janet Brown:** We have been discussing the matter. In reviewing our approach to growing businesses, we have found that a key area that requires increased effort is strategic management and leadership skills. We will emphasise that issue more in future, which will help to facilitate the discussion.

**Mike Watson (Glasgow Cathcart) (Lab):** The issue of research and development is fairly crucial to business growth and has been given considerable coverage in the submissions from Scottish Enterprise and Highlands and Islands Enterprise. Scottish Enterprise makes the point that the level of research and development in business and enterprise is very low in Scotland—in fact, it is 50 per cent of the UK level. The submission continues:

"there is a strong supply of knowledge but little demand from the business community".

Why is the rate of research and development in Scotland half the UK rate, and why is Scotland's business community less willing to appreciate the benefits of R and D?

**Janet Brown:** Your questions touch on our previous discussion about aspirations and goals. There are two reasons why there are lower levels of R and D in Scottish companies. First, the business base does not include many businesses that make products requiring technology and

therefore some interaction with a university or research institution. Sectors such as life sciences and energy that have such companies have a strong interaction between businesses and universities.

Secondly, the conversation between a university and a small to medium-sized enterprise that has never dealt with researchers before is not easy; indeed, one could say that there are almost language difficulties between the two. Often the researcher's agenda is more about creating novel technology instead of solving problems for an SME. As a result, we need to engage SMEs with universities at the know-how transfer and problem-solving stage, because that will pave the way for them to say, "Okay, we found that very helpful. I now need to develop a new product. What technology can I access?" The next stage will be interaction with the university on a potential R and D project. In any case, we need to bring the two communities together.

**Jackie Wright:** Janet Brown said that discussions between SMEs and universities are sometimes difficult. In our submission, we make it clear that such discussions are simply not happening in the Highlands and Islands, because the area does not have a framework of universities, companies that are involved in R and D or a financial sector that is geared up to support such activity. Janet said that Scottish Enterprise is looking at a £500,000 to £1 million venture capital gap. However, in the Highlands and Islands, that would represent an enormous venture capital investment. We are looking for smaller sums than that. Moreover, we do not have a business angel network, because generally those people will not move more than two hours from their doorstep.

We are not trying to reinvent the wheel; we are trying to work with Scottish Enterprise and some of the frameworks that are in place to ascertain how companies in our area that should be involved in R and D can start to engage in conversations about the matter.

15:00

**Mike Watson:** I want to probe that issue a little further before I ask about UHI. The Scottish Enterprise submission says:

"An increasing focus must be placed on the support of those businesses that recognise the importance of R&D to their success."

I see the sense in that and I think that the matter was covered in the answer to my first question. However, surely it is necessary not just to support businesses that recognise the importance of R and D but to work to convince companies that do not that they must change their approach?

**Janet Brown:** Yes—a two-pronged approach is needed. First, we must ensure that businesses

truly understand their markets and realise that if they do not innovate, create new products and change their operating processes, they will not grow or survive. We must then ensure that businesses understand the enablers that are needed to allow them to innovate and change, which are to do with R and D. The market component is essential, but we must also help businesses to engage with appropriate researchers in the areas in which they need help. That help might involve the translation of intellectual property from a university into an SME, or it might just involve the support of a researcher in solving the company's problems.

**Mike Watson:** You say that mechanisms are in place to help businesses that want to get involved in R and D or to expand their involvement. However, such mechanisms cannot be effective if the level of R and D in Scotland is still 50 per cent of that of the UK. Is the situation improving? Is there an upward curve? I have seen no figures that compare the situation 10 years ago with the current situation or that offer a projection for 10 years ahead.

**Janet Brown:** Aspects are improving—again, there is a sectoral dimension. Some of the mechanisms for intervention that you mention have not been operating for long and there is no quick-fix for changing a business's approach to its operation. The intermediary technology institutes are targeted specifically at increasing exposure to the marketplace and at helping small businesses to access technology that will enable them to build up their products, so that they are not left to do that on their own and can receive help early. Such mechanisms have been up and running for only 18 months and it is acknowledged throughout the world that the approach takes a significant time.

**Ken Abernethy:** We need to take a historical perspective and to acknowledge that we are in a period of transition. Until towards the end of the 20<sup>th</sup> century, Scotland had a number of world-leading businesses, but most of those have disappeared. Our biggest, strongest and most sophisticated organisations disappeared: we lost our large textile businesses and our shipbuilding and engineering industries. We are currently in a phase of change and it takes a while for other businesses to come through. A new generation of industry is emerging, but there has inevitably been a large short-term drop in our participation in R and D. If we are successful in regenerating good businesses in good industries, participation in R and D should grow as those businesses become successful.

**Mike Watson:** That is encouraging. Do initiatives such as the small firms merit award for research and technology, or SMART, support for products under research, or SPUR, and SPUR plus apply in the Highlands and Islands?

**Jackie Wright:** Yes.

**Mike Watson:** So they are Scotland-wide initiatives that have an effect on smaller businesses.

I am sure that all members share Jackie Wright's hope that, by 2007, UHI will have degree-awarding status and be fully fledged. In your presentation, the graph that showed what I think that you described as the "waistline" effectively demonstrated the effect of young people leaving the Highlands and Islands. However, the Highlands and Islands are just a microcosm of Scotland as a whole in that regard. Your contrasting graphs showed a dramatic picture, but many young people leave Scotland to study in the south, or go south after studying here, and do not necessarily return. I was interested, not just in the graph that showed the population of the Highlands and Islands—which appears to have been pretty steady over the past 25 years—but in your prediction that it is conceivable that 10,000 to 15,000 more people might come to work in the area. Would such an increase be related to UHI, or are the population trends in the Highlands and Islands different from those in Scotland as a whole? If they are different, that will be important in development of economic activity in the years to come.

**Jackie Wright:** There is a slightly different trend in that the population of the Highlands and Islands is growing, albeit slowly and not as much as we would like it to. The big point that we have to acknowledge is that in order to grow our population, we need to bring people into the Highlands and Islands from other areas of the United Kingdom and elsewhere in the world. That is a key target for us, because our economy will stagnate if we cannot bring more people in. One of the key factors that prevent economic growth is businesses' inability to find staff at all levels, so it is a key target for us to bring people into our economy—preferably, young people with families and partners who also want to work in our economy. We make no apology for that.

**Mike Watson:** You seem to be quite successful: you mentioned SAMS and two or three cutting-edge research or production companies that are already in the Highlands and Islands. To come back to the UHI Millennium Institute, is it your view that the university's being based in the Highlands and Islands—which will attract students to study in the region full-time—will act as a catalyst to attract more such companies to set up in the area immediately surrounding Inverness, although you would like the benefit to be spread more widely?

**Jackie Wright:** That is undoubtedly the case. The success that we have had in attracting companies such as Lifescan Scotland and in growing the marine centre at Dunstaffnage

undoubtedly works, because we start to get clusters, albeit small ones compared to what happens elsewhere in Scotland. When growth begins and big companies start to come in and bring young people, researchers and developers with them, it is undoubtedly a draw for other companies. The UHI is clearly linked to that and we want it to grow.

**Christine May:** In your evidence and your answers to questions, you have referred to community planning. In answer to a question from Susan Deacon you talked about the development of the strategy on city regions. Will you each describe for me national community planning as you understand it? Where do the Health Department, the Education Department and the Enterprise, Transport and Lifelong Learning Department get together and talk about the community plan for Scotland? I will ask the Executive later.

**Ken Abernethy:** I find it difficult to talk about the Scottish context, because the Highlands and Islands context is very different. In Argyll and the Islands Enterprise, we are in close contact with all the relevant organisations. Our area occupies more than 9 per cent of the UK land mass but has a population of 70,000 people, which is about the same as Hamilton.

**Christine May:** Perhaps I did not make myself clear. I am asking about the joined-up work that has been mentioned. What is your understanding of how that is done?

**Ken Abernethy:** Do you mean how it is done at national level?

**Christine May:** Yes.

**Ken Abernethy:** Pass.

**Janet Brown:** The only forum in which I think that happens is at cluster or industry level. With the life sciences community strategy, which considers what is necessary to improve that industry, we have taken on a theme and are pulling everybody in. There is no one forum in which we discuss all the different industries.

**Christine May:** Perhaps I will pursue that with other witnesses later. I will ask about your organisations' flexibility. Ken Abernethy said a moment ago that, at one stage, we had world-class businesses in Scotland, but they declined. The businesses that we are now building will come to the end of their natural lives and will decline. What steps have you put in place to anticipate that and be ready for it?

**Ken Abernethy:** That is a big and difficult question. One would be deluding oneself to say that that problem is ever solved. All I can say is that the economy that suffers least as change occurs is the economy that has a high level of

skills, a high level of education, flexible labour markets and—to ensure that people are agile and willing to respond to changes—a broad understanding that industries come and go. It is principally down to ensuring that there are high levels of skills and that we encourage a high level of research so that, as changes occur in world markets, we in the British, Scottish and Highlands contexts have the knowledge to do the things that are wanted at world level.

**Jackie Wright:** I do not think that there was necessarily acceptance in previous decades that businesses had a whole life or of what their life cycle was; we perhaps all just revelled in the success of capturing those businesses. The change whereby foreign direct investment now does not consider location and how much Government support it will get, but follows smart people is something to which we need to play. It all comes back to people—having thousands of smart, clever people in an area will always be a draw to industries. If we can accept the cyclical nature of industries while ensuring that people are prepared to stay here, that will be to our benefit.

**Janet Brown:** It is important to have businesses that are connected to the marketplace and that know what is happening so that they do not get blind-sided by something coming from left field, are aware of what the market is doing and will move with it. The classic example of that is the horse whip manufacturer who no longer manufactures horse whips but instead manufacture steering wheels for cars. Businesses' understanding of where the market is going is significant.

**Terry Currie:** The question has been asked recently whether we spend too much money on start-ups as opposed to existing businesses, but the answer is that we must invest in both. We have also to invest in start-ups for the reason to which Christine May referred in her question, in terms of volume and high growth. We have to invest in existing businesses, as I said in reply to an earlier question about segmentation. We have to identify the companies that have the growth potential to replace the kind of companies that Christine May asked about.

**Mr Stone:** I want to ask a brief supplementary to Christine May's question. I accept that businesses come and go but, given the emergence of off-shoring—manufacturing in India and China—do you see the balance between the service and manufacturing sectors in Scottish industry changing and, if so, to what extent?

**Janet Brown:** We need to remember that there are different types of manufacturing. Often, we think about manufacturing as being about heavy engineering, but there is manufacturing in the new industries as well. In most places in the world the



pilot lines and new product introduction manufacturing tends to be done where the new products are developed. The mass manufacturing will go off to China and other parts of Asia. The value is maximised in the early stage of product development and sale. We need to understand the life cycle of products and what sort of manufacturing we are aiming for. There will be a shift in the balance, but we need to acknowledge that new industry has manufacturing capacity as much as heavy engineering had historically.

**Mr Stone:** Is that not a fallacy? You are saying that if we start businesses up we will get in there early, but what is to prevent the Chinese from inventing new things?

**Janet Brown:** Nothing.

**Mr Stone:** Does that not undermine us? Is manufacture not then possibly doomed?

**Janet Brown:** No.

**Mr Stone:** I need reassurance about that.

**Janet Brown:** If people are to get market share by being the first to get to the market with the product, that means that they have to be linked to the marketplace, understand what they need to be developing and have the technology, people, resources and money to get those products to the marketplace quickly. They can make them earlier close to their home base and then ship them out. Every country in the world has that business model. Scotland needs to be as agile in doing that as the Chinese.

**Christine May:** My final question is linked to that. In your presentation you said that not enough people in Scotland had enough experience of the international marketplace. Are you suggesting that it is a good thing for people to get out of Scotland to experience that marketplace? If they do not have that opportunity, are there academic opportunities to help them to develop some of those skills?

15:15

**Janet Brown:** There are lots of Scots around the world who would love to come back here to the right challenge; in fact, the number of hits to the websites that advertise positions in Scotland show that an incredible number of people want to come back. There is not a dearth of Scots with international experience; rather, we need to ensure that there are opportunities for people to come back to and we need to facilitate them in identifying good ideas and good companies to work with in order to develop growing businesses here.

**Michael Matheson (Central Scotland) (SNP):** I want to cover two areas. My first question is aimed

at Highlands and Islands Enterprise and relates to transport and transport infrastructure. Earlier, Jackie Wright referred to the difference between the costs of flights from London to Milan and flights from London to Orkney. How big a factor in inhibited business growth—in terms of existing businesses and those that might be considering moving into a rural area—is limited transport infrastructure and the associated costs?

**Jackie Wright:** If the convener wants to extend the meeting until eight o'clock tonight, I will give you a full and frank answer.

**Michael Matheson:** I do not know about the convener, but I do not want that.

**Jackie Wright:** We could give you a lot of information, but I will give you a précis. Every business that operates in the Highlands and Islands has to get goods from one place to another, whether it is from one end of Stornoway to another or from Lerwick to Inverness. The businesses that have great growth potential tend to be global players and the decisions about whether they stay in the Highlands and Islands will not be made in the Highlands and Islands. Getting their goods to European and other markets is becoming increasingly difficult. For example, you cannot put goods on a train in Fort William and get them to Glasgow, Cardiff or wherever in a structured time. In fact, the train from Fort William to Glasgow takes longer than the bus, because of the route the railway line takes. We are all supporting efforts to get heavy transport off the roads, particularly single-track roads and roads that are not dual carriageways in the Highlands and Islands. Therefore, businesses in the area start with an inhibitor in terms of their ability to compete with sister organisations around the globe.

We have two arterial routes from the central belt to the north: the A9 and the A82. The A82 is probably the only trunk road in Britain that has a set of traffic lights on it. Two buses and two trucks cannot pass each other at the same time on the road.

**The Convener:** It is a single-track road in places.

**Jackie Wright:** Yes—such are the problems that are faced in the central part of our area. We also need to ensure that ferries are linked to mainland transport so that there is a real integrated transport network within the Highlands and Islands. That will happen only with an integrated transport forum, which, surprisingly, not everyone in the Highlands and Islands is signed up to helping us deliver.

Inverness airport has grown dramatically in the past few years as a result of the air-route development fund and, this July, flights to Bristol will start, which will be a huge benefit.

I am sorry to have talked for so long. As I said, I could go on until eight o'clock.

**Michael Matheson:** Would it be fair to say that transport infrastructure is a significant factor in terms of inhibiting growth?

**Jackie Wright:** Yes.

**Michael Matheson:** At our previous committee meeting, a witness said that one of the factors that inhibited business growth in Scotland was a lack of confidence. How big a factor is that?

**Terry Currie:** The issue of confidence historically has been more closely related to business start-ups than to business growth. I do not see confidence as being a huge factor that is inhibiting business growth in existing businesses, although it is still pretty significant in the overall cultural attitude to business start-ups. In fact, the recent Global Entrepreneurship Monitor report, which compared start-ups in a number of countries throughout the world, alludes to the fact that there is some sort of inhibitor within Scotland. I am glad to say that the GEM report shows improvement in Scotland in many facets of business birth rates, but there are still confidence and attitude issues that we have to work on and eliminate.

**Jackie Wright:** I recognised some of the symptoms and examples in the evidence that Carol Craig gave the committee a couple of weeks ago. If the determined to succeed programme succeeds, it will realise another long-term ambition, because it is about embedding entrepreneurial attitudes in young people. They will not all start businesses, but at least they will grow up and go to work within organisations with an entrepreneurial attitude, and they will understand what people who start their own businesses are going through and have to deal with.

**Richard Baker (North East Scotland) (Lab):** In response to Christine May's question, you said that there was a shortage of people who want to come to Scotland. The solution is to identify the right opportunities for them and the potential for them to get involved in businesses here. There is no lack of ideas for new businesses in our academic research sector and there is obviously a big push for commercialisation of research. What further potential is there for linking up people who get in touch with Scottish Enterprise and ask about research sector opportunities, which the ITIs are looking to develop?

**Janet Brown:** That area has huge untapped potential. It is difficult to work out how to tap it, because we are talking about a sort of dating agency that says, "These are great ideas that have market opportunity and these are good people." It is not just about having great ideas with great technology; they must have somewhere to

go. In the high growth unit, somebody comes in with a good idea and international players are pulled in to nurture it. That is one way of doing it, but that activity is small, and we need to expand it. We need to examine how to run that dating agency better than we have done. We need to ensure that once the date has been made, there is a good place for them to go and they have good food to eat. We have to ensure that we facilitate the growth of the business once people have been partnered.

**Terry Currie:** One quick point is worth adding. Janet Brown referred to the high growth unit. Of the 30 new projects that have got off the ground, about six have some sort of international influence through Scots abroad who have come back. It is worth making the point that this is not just about Scots abroad; it is also about Scots in other parts of the UK. In the past six months, we have found London-based Scots who have much to offer start-ups and existing businesses. There are many of them and they are, above all, very handy to know. That is an important area to tap into.

**Richard Baker:** Can we be confident that the businesses that are being invested in through ITIs will have the right leadership? What part of the ITI process will ensure that the right leadership will be available to develop those businesses?

**Janet Brown:** We must ensure that we get company-building companies, for want of a better phrase. I know that the committee will be talking to PricewaterhouseCoopers next week. We need the expertise of people who help to nurture small companies. That needs to be brought alongside the ideas that are coming out of the ITIs.

**The Convener:** Before we finish, I have a couple of questions, the first of which is provocative. The purpose of our inquiry is to examine business growth in Scotland from 2005 to 2015 and beyond, and to determine what we need to do to boost business growth in Scotland, and in particular to close the gap between business growth in Scotland and business growth in the rest of the United Kingdom.

If I had been sitting here in 1990, 15 years ago when Scottish Enterprise was created, I would probably have had a paper—there is nothing wrong with either of today's papers; they are good—saying that we must improve management development and access to finance and that we must do this or that. Here we are, 15 years later; Scottish Enterprise has spent about £6 billion of public money in that time and Highlands and Islands Enterprise has spent about £1 billion, but the growth rate is no higher than it was in 1990 and the gap between the growth rates of Scotland and the rest of the United Kingdom is, if anything, slightly bigger than it was 15 years ago. Where is the vision? What is it that we need to do differently

in the next 10 to 15 years that we ain't been doing in the past 15 years to really boost growth and close the gap?

**Terry Currie:** If we consider what places such as Lanarkshire looked like in 1990, with 18 per cent unemployment and vast tracts of land in disarray, and compare that with the Lanarkshire of today, we can see how the quality of life, environment and diversity of businesses have improved. The same is true of a number of other regions of Scotland. We have to conclude that major progress has been made in the past 15 years across a wide range of areas. If you are dismissive of what has happened over the past 15 years as a result of Scottish Enterprise investment, I have to challenge you on that.

Where we go from here and how we can meet the challenges that Janet Brown has emphasised in her paper are questions that have been asked time and again. I think that this is about people; it is about nurturing the right people and about linking the cleverness that we have in academia and in corporate Scotland with the people who can make the big difference. To me, that is the biggest single challenge.

**Janet Brown:** I could put it in one word: stickiness. I have not been here throughout the past 15 years, but I know that foreign direct investors can move quickly because they are here for manufacturing. That touches on what we said earlier about the value that is brought. If value is not easily moveable and is indigenous in the people who exist in Scotland, businesses will have to stay here because they cannot easily replicate that anywhere else. We need to make Scotland stickier for business—both indigenous and international. That is about people and it is about creating an environment that allows those people to be successful and does not inhibit their success.

**Jackie Wright:** I associate myself with those comments. We have seen major positive changes in our area over the past 15 years. We started by talking about people and we will finish by talking about people. I would add place to the equation. People will want to live in exciting and prosperous places, whether that is in an exciting and prosperous village or in an exciting and prosperous city. It will only be in years to come that we will really start to see the pay-off from the huge investment that has gone into our city regions, and we need to continue that investment while ensuring that our peripheral areas do not become even more marginalised.

**The Convener:** You could undoubtedly pick individual areas. Dundee, for example, has seen some major improvements. However, what we are doing here is addressing the Scottish economy as a whole. The bottom line is that the growth rate of

the Scottish economy as a whole is more or less as it was 15 years ago, and the gap between Scotland and the rest of the United Kingdom is, if anything, slightly worse than it was 15 years ago. That is the bottom line, whether or not Lanarkshire has more green belt or whatever than it used to have.

15:30

I will give a specific example, looking ahead. Mike Watson's questions were very interesting. Your figures show that our spend on research and development is at the bottom of the third quartile of the Organisation for Economic Co-operation and Development average. Yet, down the centuries, this country has been way ahead of the game internationally on research, although it has always been poor on development. Business spend on research and development in Scotland is half the UK rate, which is half the OECD average. The Lisbon agenda has set a target of 3 per cent of gross domestic product across Europe to be spent on research and development and, in his budget this year, the Chancellor of the Exchequer set a target of 2.5 per cent of GDP by 2014. Scotland is currently spending 0.6 per cent of its GDP on research and development. How will we get from 0.6 per cent to 2.5 per cent? It would require an additional £1.8 billion a year to be spent by business in Scotland on research and development to achieve that target.

We all agree—from ministerial level down, as Jim Wallace has agreed with the committee—that, if we are to create a smart, successful Scotland, we had better get our research and development spend up to much nearer the OECD average; however, I have not seen anything that convinces me that we will do that. We do not have the answers, and you are the professionals in this area, so how are we going to get from a spend of 0.6 per cent of GDP to a spend of 2.5 per cent of GDP by 2014?

**Janet Brown:** I agree that that is an extremely ambitious target. There are multiple dimensions to that. The R and D plus programme basically supports large companies in increasing their R and D activity in Scotland, be they local or foreign direct investment companies. That is a significant way in which we can start to seed R and D within a company. Once the company sees the value of R and D, it will start to do its own. Work is being done through the Scottish co-investment fund to bring money to Scotland to help companies to grow; the associated research and development costs are inside that. There is also leverage through the public sector, whereby for every £1 of public sector money that is spent, £3 is leveraged from the private sector. Much of that is going into R and D development within companies.

The ITIs are partly about R and D and act as proxies for large corporate speakers because we do not have large corporations here. They will enable small companies to understand the value of R and D and to do smaller amounts of R and D so that they can get their first products to market. We want to get them on the road of doing research and development. There is also the whole people component of helping them to understand it.

That will not, however, happen overnight. Changing the way in which businesses operate and develop their products and changing the attitudes of businesses to research and development does not happen just by giving them money. If we increased the R and D spend in companies but they did not know what to do with their R and D, that would not add any value to Scotland. Companies must understand where they are focusing and targeting their research and development. It is about markets, competencies, capacity and leveraging in money, and it is about people.

**The Convener:** If we implemented all the recommendations in your written submission, what amount of spend, as a percentage of GDP, does Scottish Enterprise estimate that we would get to?

**Janet Brown:** You are being challenging today. I would like to see us improve significantly, but I believe that that improvement would happen over six, seven or eight years. It is not going to happen tomorrow. That target of going from 0.6 per cent to 2.5 per cent is extremely ambitious unless we increase the number of companies here, either by starting up new companies or by attracting foreign companies to do R and D here because of the competency of our people and because they can access the research and development that presently exists in our university system. That is another way in which we could increase the amount of R and D that is done in Scotland.

**The Convener:** I am not convinced. I see, for instance, the amount of investment that is being made in biotechnology companies in and around Cork. Every major international biotech company is in Cork, and many small companies are, too. Biotech is supposed to be a key sector for the Scottish Executive and its agencies, but many of the biotech companies here are seriously thinking of upping sticks from Scotland because they do not believe that the financial incentives in Scotland are in any way a match for those in Ireland or in many other countries, such as Singapore and some of the new European accession states. What can we do about that?

Much money has already been spent on biotech. To my mind, that is absolutely the right strategy, because biotech is clearly an industry that has potential for exponential growth internationally.

That is exactly the kind of industry that we want to invest in. However, what do we need to do to keep the biotech companies here? Clearly, we are not doing enough at the moment.

**Janet Brown:** There are two aspects to that. First, we must work with those companies to keep them here. The issue is the funding cycle for biotech and life sciences companies. The follow-on funding for biotech companies is a huge area that needs to be addressed because it their products take a long and difficult time to market. The VC market for biotech companies in Scotland and the UK is not operating as it is in the US.

Secondly, there is increased focus on targeting specific foreign companies to come to Scotland because of the competency of our science—that is being done at national level. We are asking companies what could add value to the cluster—to the industry sector in Scotland. We are asking which companies it would be good to have here and which companies would benefit from the expertise that exists in Scotland. We are making significant efforts in those areas and are making targeted approaches.

**Jackie Wright:** I agree. Because of the size and type of our companies, the contribution in the Highlands and Islands to that will be a factor; I hope that it will be an important factor. However, the majority of research and development is happening in the central belt and in our big city areas.

We are firmly linked to the ITIs—we sit on their boards, and only now are the ITIs starting to produce what we hoped for. I agree with Janet Brown that it is a long-term aim that we have.

**The Convener:** Okay. I could pursue that, but we have had a good long meeting. Your written submissions have been extremely helpful and informative, as was your oral evidence. You will excuse my having been provocative—it is part of my job.

We will take a five-minute recess to give the Scottish Executive officials time to set up their presentation. I thank the representatives of Scottish Enterprise and HIE for a very worthwhile contribution.

15:38

*Meeting suspended.*

15:45

*On resuming—*

**The Convener:** I welcome our next panel, who are from the Scottish Executive Enterprise, Transport and Lifelong Learning Department. Ian Howie is head of business growth and innovation

and John Ireland is head of the analytical services division.

John Ireland will make a short presentation.

**John Ireland (Scottish Executive Enterprise, Transport and Lifelong Learning Department):** I thought that it would be useful to start by providing some context to the evidence that you have heard about the Executive's strategies on economic development and, in particular, "The Framework for Economic Development in Scotland" and "A Smart, Successful Scotland". As members are probably aware, those were both refreshed last year.

One of the central principles of the Executive-wide "Framework for Economic Development in Scotland"—or FEDS—is that underlying growth is primarily determined by the success of private enterprise. It sees the role of the Executive as being to facilitate such success through a number of interventions when there is evidence of market failure and by creating a supportive business environment.

The document "A Smart, Successful Scotland" is the enterprise strategy for Scotland. It forms the strategic guidance to the enterprise networks. As the committee is probably aware, it has three themes: growing businesses, which is about encouraging innovative businesses to grow; skills and learning, which is about making the best use of human capital; and global connections, which is an approach to increased globalisation that embraces both an outward focus on Scottish firms that are looking outside Scotland and an inward focus on attracting business into Scotland.

Our submission is organised around the challenges to the principal themes of "A Smart, Successful Scotland" that are relevant to the inquiry: growing businesses and skills and learning.

On growing businesses, the challenges are very much around entrepreneurial attitudes. The committee has already talked a lot about confidence and how that feeds into both business start-ups and innovative firms.

The second challenge is on business starts. As the committee is aware, the business birth rate in Scotland is about three quarters of that in the UK. One of the reasons for our focus on business starts is that, at a UK level, approximately 30 to 50 per cent of productivity growth is down to the churn of new businesses starting and old businesses fading away.

The next challenge is around growing and sustaining businesses. That is about the contribution of existing businesses. If about 30 to 50 per cent of productivity gains are from the churn of new businesses, obviously the remaining

70 to 50 per cent of productivity gains are produced in existing firms.

The next challenge is around access to finance and is about ensuring that at all stages in the life cycle of businesses there is reasonable access to finance.

The final challenge on the growing businesses theme is in respect of innovation, which we mention in our submission. That includes R and D expenditure. Business R and D expenditure was discussed in the previous evidence session, but our approach also looks at the total R and D expenditure in Scotland, which, at about 1.75 per cent of GDP, is just behind the figure for the UK, which is 1.83 per cent of GDP. That total measure of R and D is the scale that we are looking at in respect of the Lisbon agenda.

I move on to skills and learning, which is to do with, first, developing people in work and ensuring that they have the right skills to increase productivity. That approach is reflected in the investment in human capital that the Executive has been leading in schools and through lifelong learning. Secondly, it is to do with improving the operation of the labour market, which relates to issues such as skills shortages—Futureskills Scotland provided evidence of the extent of such shortages—and flexible labour markets, about which you heard much from your previous witnesses. Demography, which you also discussed, is another factor.

The other role of the Executive in business growth is to encourage and facilitate a supportive business environment. Many issues that relate to the challenge of creating a stable macroeconomy are reserved to Westminster. However, the Executive has a role in relation to planning, infrastructure—physical infrastructure in general but transport infrastructure in particular—and regulation. Regulation is much in the news and although the Executive can make a contribution in that regard, regulation is also an issue for Whitehall and the European Union.

**The Convener:** Thank you.

To what extent must business spending on research and development increase if spend in Scotland is to reach the OECD average or the target for 2014?

**John Ireland:** Total R and D spend is currently about 1.75 per cent of GDP. The UK is just ahead of us with spend of 1.83 per cent of GDP. The Lisbon agenda target is 3 per cent, and you referred to the Chancellor of the Exchequer's target, which is 2.5 per cent. We should bear it in mind that Scotland's spend is a little below the EU average. However, if we compare spend in Scotland with spend in OECD countries the gap becomes wider: in that regard Scotland is very much in the third quartile.

**The Convener:** The figures that you quote, which show Scottish spend as being near the UK average, include public sector funded R and D, such as research council R and D, in relation to which Scotland punches well above its weight. We do not often have the opportunity to question the head of an analytical services division. Currently Scottish businesses spend about £600 million a year on R and D, which is less than Nokia spends in a year. How much more would we have to spend to achieve the OECD average this year, or to achieve the Chancellor's target in 2014, or to achieve the Lisbon target?

**John Ireland:** I do not want to evade the question, but I will give a pointy, analytical-services answer. The data on business expenditure on R and D tell us where the money is spent—where R and D is conducted in business—not who spends the money. R and D expenditure that is carried out in universities and in the public sector might be funded by business. The data tell us where R and D takes place, but not who funds it—but that is a minor wrinkle.

**The Convener:** What must we do to close the gap? The question remains relevant.

**Ian Howie (Scottish Executive Enterprise, Transport and Lifelong Learning Department):** I do not think that we can give specific figures. I recall that the convener asked a parliamentary question along the same lines, so I suspect that the information is available.

**The Convener:** That was about two years ago, so the information will need to be updated. Can you send it to us? We will have a round-table discussion on the issue in Dundee in a few weeks' time and it would be helpful to have the information at that meeting.

**Ian Howie:** We can provide that information.

**The Convener:** Excellent.

**Christine May:** I asked the previous panel about overall planning and co-ordination across various departments. What discussions does the Enterprise and Lifelong Learning Department have with the Health Department, the Education Department and other departments to find out how their policies impact on business and how business policies impact on their areas of activity?

**Ian Howie:** The Executive's structure facilitates such cross-departmental working and, ultimately, Cabinet discussions. For example, the Executive priority of growing the economy underpinned the most recent spending review, and all departments had to take that into account in justifying spend in various elements of the Executive's overall budget. As for the planning review, all departments will contribute to that policy development work in the established way. It is not

difficult for the Executive to operate in a joined-up manner.

There is also what might be called bilateral contact. As Janet Brown said, we have regular contact with our Health Department colleagues on issues of common interest in life sciences and biotechnology development to ensure that we can join together the health and economic development perspectives as much as possible.

**Christine May:** I accept that, theoretically, all those things are possible and that some elements of them have been put into practice. However, how often would you participate in putting together a paper for the Cabinet that, for example, considered the implications of the level of poor health in the west of Scotland for participation in the economy, the businesses that might be most appropriate in that area, certain educational issues and so on? One of the first things that I did when I entered in local government was to go to my community planning meeting so that I knew about the issues in the local enterprise network and the local health service, because that meant that we could iron out glitches before they became major problems. To what extent does that happen across the civil service?

**John Ireland:** One fairly recent example along such lines was the Cabinet paper behind the refreshed FEDS, which addressed such issues at a strategic level but which also allowed ministers to discuss how the various issues in the different parts of the Executive fed into the priority of growing business and the economy. As Ian Howie pointed out, the spending review was very much based on such issues. Indeed, I remember drafting a fair number of those contributions from my own department. I am aware that that discussion takes place at a fairly strategic level but, as Ian suggested, discussions also take place on the ground.

**Christine May:** Thank you. I will pursue that issue with other witnesses at a later date.

**Susan Deacon:** I want to pursue that line of questioning a bit further. John Ireland might have touched on this point in his last answer, but the committee would appreciate it if the witnesses could give us a sense of what that process looks like and how it feels. It seems to me that there are two very different processes, which means that there are two very different outcomes. On the one hand, a draft document is e-mailed around different departments and many people draft little clauses for insertion into it. As a result, it becomes something of an omnibus product. On the other hand, there is an on-going strategic dialogue on the policy areas. Will the witnesses explain the process that underpins the interdepartmental communication that has been described?

**Ian Howie:** Such communication happens at a number of levels, from the management group down, with departmental heads inputting into the process. As a result of the Executive's structure, cross-cutting policy issues can be discussed and resolved within those contexts; ultimately, they are discussed by the Cabinet and then signed off. The mechanisms exist, but the extent to which they are all used depends on the overall importance of the issue. We feel that the process is fairly straightforward and ensures that an appropriate collective view is taken on key strategic issues across the department.

**Susan Deacon:** I want to ask the same question on leadership and management development that I asked the previous panel. How does the Executive think that a nationwide approach to that issue can be developed? It strikes me that there are issues here that cut across the private sector-public sector divide and therefore that the Government has a particular role to play in building leadership capacity throughout the country in whatever sector.

16:00

**John Ireland:** We can tell you a little bit about what has been done in the public sector. There are initiatives within Scottish Enterprise and Highlands and Islands Enterprise that were covered in the evidence from the previous witnesses. There is also the example of the Institute of Directors working with Highlands and Islands Enterprise to provide leadership training for people outside the public sector, but I am not aware of a great deal of activity in that area of work, because it is not my area. We can get back to you on that.

**Ian Howie:** There is a lot of leadership training provision in the private and public sectors. From a supply perspective, there are a lot of opportunities and options; the more important issue is on the demand side and the extent to which businesses recognise their deficiencies in management skills and are able or willing to do something about them. There might be a case for a more joined-up approach to the promotion and recognition of key management skills for businesses and providing a way to allow them to access the supply mechanisms that exist. As Janet Brown said earlier, Scottish Enterprise is considering the broader supply issues and issues of joined-up supply as part of its growing businesses review. Leadership training is important and I am not sure that we have got it right, so we are examining the issue.

**Murdo Fraser:** I will address the issue of the wider business environment that is covered in your submission and ask specifically about business taxation. Paragraphs 55 and 56 of your

submission contain helpful graphs that illustrate total tax revenue as a percentage of GDP. Are those graphs not a little misleading? We know that the percentage of GDP in the wealth-creating sector—that is, the private sector—in Scotland is smaller than in the UK as a whole and in most other OECD countries. Therefore, to show the tax revenue as a percentage of GDP rather distorts the picture, as the reality is that, because of the higher business rate, most businesses in Scotland pay higher taxes than businesses in the rest of the UK.

**The Convener:** Will you also clarify whether those GDP figures include or exclude oil?

**John Ireland:** I will get back to you on whether they include or exclude oil, as I cannot remember.

**The Convener:** It makes quite a difference.

**John Ireland:** I know that it does. My hunch is that they exclude oil, but I could not swear to it. I will get back to you on that.

**The Convener:** If the GDP figures include oil, will you give us those that exclude oil and vice versa?

**John Ireland:** I am not sure whether that is statistically possible, but I will make a note of that and check it.

Murdo Fraser's point about chart 3 and business tax revenue as a percentage of GDP is valid. In the report on comparative business taxation from which the charts were taken, there is a supporting chart that covers and makes adjustments for the proportion of total revenue that comes from the corporate sector. The point that Murdo Fraser makes is one of the motivations for having chart 2, which is the Treasury's preferred approach to examining tax as a proportion of GDP. There is a problem, in that whoever the tax is levied on might not end up paying it in economic terms. By lumping all taxes together—whether they are paid by businesses or by individual people as consumers or workers—we can consider total taxes divided by total GDP, which is far easier and is the analysis that we use in chart 2.

**Murdo Fraser:** You will appreciate that that does not account for the lower proportion of GDP in the private sector than in the public sector.

**John Ireland:** Yes. That is why the chart on proportion of revenue that supports chart 3 in the report makes corrections for that.

**Murdo Fraser:** Looking at chart 2, do you accept that the countries that tend to have shown the highest rates of growth in the most recent periods are those towards the left of the chart?

**John Ireland:** I would say that there is a reasonable correlation, with the exception of Japan.

**The Convener:** Did Murdo Fraser say “towards the left” or “towards the left of the chart”?

**Murdo Fraser:** In this case, I said “towards the left of the chart”.

**Mike Watson:** I would like to address the issue of R and D, which was mentioned earlier. I am looking at the DTZ Pidea Consulting document, “Scottish Business Attitudes to Research, Development and Innovation”, with which I am sure the witnesses will be familiar. The document talks about a group of companies that have no experience of R and D but which are open to becoming involved in it in the future, given a number of initiatives that might encourage them to do so, such as Government grants, tax incentives and the ability to recruit people with the appropriate skills.

In the light of what the witnesses say in paragraph 32 of the written submission about SMART, SPUR and the more recent mechanisms, do they think that such schemes are likely to bridge the gap? SMART and SPUR have been around for some time, and we still seem to be well short—50 per cent short—of the UK figure for business and enterprise R and D spend. Do the witnesses feel that those mechanisms are able to bridge that gap and meet the demands identified by the companies that were interviewed for that research paper?

**Ian Howie:** There are three issues. First, we have seen interest in SMART and SPUR increase significantly over the past three or four years. The number of awards made under the schemes has doubled in the past four years, reflecting an increasing uptake of SMART funding. Nevertheless, we recognise that, on that basis, we are reaching only a small number of companies in Scotland.

Secondly, we have introduced two new schemes—the small and medium-sized enterprises collaborative research programme, or SCORE, and the Scottish Executive expertise, knowledge and information transfer programme, or SEEKIT. SEEKIT is intended to help universities to build their capacity to work with SMEs and, in doing so, to encourage SMEs to use the expertise in technology and science that is available in universities. That is one way in which we will start to reach more companies and make them recognise the importance of R and D; it also provides a mechanism for accessing R and D and getting support.

Thirdly, Scottish Enterprise works with companies through a client and account-based approach. In dealing with companies that are potential R and D users, that mechanism is used to encourage them to take up R and D to improve their products and processes or whatever.

There is a range of mechanisms for achieving an increasing number of businesses. We are moving in the right direction, but there is a scale issue, and it will not happen overnight.

**Mike Watson:** You have identified an upward curve. How do you monitor that and how often? Is it done annually?

**Ian Howie:** We monitor SMART on an on-going basis, with a regular three or four-year evaluation of the impacts of the scheme. The evaluation work on SMART and SPUR has been extremely good in demonstrating the efficiency of the programmes and the extent to which they add value to companies’ activities. It also validates the idea that R and D is good for companies, as it shows a direct correlation between companies that do R and D and their growth, competitiveness and, ultimately, success in global markets.

**Mike Watson:** Thank you for that.

Let us turn to the issue of regulation. We have received a wide range of submissions in our inquiry, and organisations such as the Federation of Small Businesses in Scotland, the Scottish Council for Development and Industry and the chambers of trade and commerce are talking about regulation—or red tape, as they tend to characterise it. The Federation of Small Businesses states that

“Regulation is a constant cause of concern to the business community.”

The SCDI states that

“there is a growing burden of regulation”.

You refer to regulation to some extent in your submission; however, you go on to say that

“an OECD review of EU countries found that the UK has the lowest administration cost and fewer regulations for entrepreneurs than any other EU country.”

Those two positions seem to be at odds with each other. The Executive, Scottish Enterprise and the various organisations that are assisting companies that want to grow their business need to get the message across that, although businesses may feel that they are overburdened, relatively speaking, in comparison with our competitors, they are not. How can you get that message across?

**Ian Howie:** We can do that simply by using the evidence to underpin our discussions with the business sector. The reality is that businesses dislike regulation of whatever scale; therefore, I doubt that we will ever satisfy the business community that there is an appropriate level of regulation. There is a misconception that the UK is especially overburdened with regulation, but the evidence suggests that that is not the case. There may well be too much, but there is less than in some countries.



**Mike Watson:** We can argue about the extent to which the burden is real, but if companies—especially SMEs—feel that burden, that may act as a brake on their drive, if not their ability, to grow their business. They feel that they are being held back or that whatever they put into their business may be offset by further regulation. How can we overcome that? Is it simply a matter of repeating the message and hoping that, eventually, it gets through?

**Ian Howie:** We must repeat the message about businesses needing to recognise what the relative position is. There is also a genuine issue underpinning that, concerning the need to minimise red tape for businesses—especially small businesses. As you probably know, a lot of work is being done in the Executive, through the improving regulation in Scotland unit, to minimise the amount of red tape or to make as appropriate to the needs of small businesses as possible whatever red tape is thought to be required.

There is continuing discussion on how we can improve the quality of whatever regulations are put in place and sunset other regulations as they become less appropriate over time. The IRIS unit has introduced the concept of a regulatory MOT, whereby, at a given time, the appropriateness of extant regulations will be assessed. Regulations that are no longer appropriate will be sunsetted and moved out of the system.

**Christine May:** On the subject of regulation, have you seen the Hampton report, on which I believe that Gordon Brown is going to base legislation that will come before the UK Parliament? Do you concur with the report's view that the number of regulatory agencies should be reduced from 31 to seven?

**John Ireland:** That is very much a reserved issue, although we will talk to Whitehall about it.

**Ian Howie:** I imagine that, from the business community's perspective, minimising the number of regulatory visits is a good thing and the rationalisation of regulatory bodies, as far as possible, is to be welcomed. As John Ireland says, most of the regulation is UK driven and, in a sense, we do not have a direct input to it. However, as part of minimising the impact of regulation, minimising the number of inspections and visits that are required of businesses is, arguably, a very good thing.

**Christine May:** For information, I advise the committee that the Subordinate Legislation Committee has been conducting an inquiry into regulation and may introduce a bill on the subject before the end of the parliamentary session.

**Mr Stone:** Paragraph 14 of your submission is about involving young people in entrepreneurial education. The situation is vastly different today

from what it was when I was at school, with young people going out and getting work experience. Nevertheless, do you think that we are hitting the target? I have the impression that a lot more could be done to encourage young people to spend a week or two gaining experience. Are the civil service and the Parliament doing as much as we could? Are you considering offering—directly or via the enterprise networks—some form of inducement or encouragement for the business sector to engage more with young people? That is linked to the idea of corporate social responsibility—you might consider inducements on that front as well.

**Ian Howie:** The determined to succeed programme is a pretty comprehensive programme to address entrepreneurship, enterprise and career development in primary and secondary schools. A lot of money—around £86 million over five years—is going into that. For the first time, we have a programme that will reach all school children at some point during their education years.

I suspect that businesses do not need an incentive to become involved, but they need to be made more aware of the opportunities that exist to work with schools. My experience is that businesses are more than happy to do that locally when they can. I do not see a need to incentivise them to become more engaged in the process. Many businesses are engaged in the determined to succeed programme, but we need more and we are looking for ways in which to encourage more businesses to take part.

16:15

**Mr Stone:** I could be wrong, but I get the impression that some businesses in my constituency—if I dare mention it—are too busy mending washing machines or whatever to do that. However, I take comfort from the fact that you are keeping the issue under review and auditing it.

**John Ireland:** Recently, the Executive has published a reasonable amount of research on the involvement of SMEs in the determined to succeed strategy. The messages that are coming out of that are quite positive. There is a willingness to be involved and the people who are involved are positive about it.

**Mr Stone:** Perhaps word has not yet reached the north Highlands.

**Chris Ballance:** My question is for Ian Howie. I understand that your department launched the proposal for the Scottish co-operative development agency at the weekend. What potential for growth is there in that sector? How do you see the SCDA growing and working with the sector?

**Ian Howie:** The potential within the co-operative sector is significant. Although the number of co-operative businesses is not large at the moment, we can see that, across the world, co-operatives can make a significant contribution to the economy. Indeed, they make a significant contribution to the economy of the United States of America.

The potential is great, but it has been hard to realise that potential because the support mechanisms that we have had in place have not focused enough on co-ops. The rationale behind the proposal to set up the SCDA is to address that deficiency.

The SCDA will promote the co-operative model as being a relevant, modern approach to setting up a business and will provide some support and assistance to those who might want to set up a co-op and to existing co-ops that want to grow. It is important that the agency be properly linked into the broader enterprise network support mechanism, because co-ops will require the same kind of support as any other business. Because of that, we have decided that the SCDA should be set up as a subsidiary of Scottish Enterprise, within the enterprise networks. That will enable it to get the benefit of the synergies that should be deliverable as part of that broader structure.

There is a lot of potential in the sector and a lot of work still to be done with regard to setting up the agency. However, the agency and the sector will make a positive difference as part of the larger efforts to grow the economy.

**Chris Ballance:** Will the SCDA work across all the sectors of the economy? Will it deal with farming co-operatives, for example, or will it focus solely on one area?

**Ian Howie:** We need to think about the way in which it will interact with existing players in the co-operative sector. For example, the Scottish Agricultural Organisation Society deals with co-operative businesses in the farming sector. Where existing support mechanisms are working well, we do not want to cut across them. However, we need to ensure that the SCDA is properly joined up with those organisations that are specifically sectorally focused. We want it to be joined up, in that sense, but to have a fairly broad remit across the co-operative sector.

**Chris Ballance:** Will its primary function be to encourage new co-operatives to be set up or will it be to support and grow existing co-ops?

**Ian Howie:** Both, but—

**Chris Ballance:** Which function would you say would be the primary one?

**Ian Howie:** Given that the number of co-ops in Scotland is not significant, its initial priority would

probably be to find ways in which that number can be grown.

**The Convener:** It was not clear from the press release at the weekend whether legislation will be required to set up the SCDA. Will it?

**Ian Howie:** It will not. Under existing legislation, Scottish Enterprise has powers to set up subsidiaries.

**The Convener:** It will be a subsidiary of Scottish Enterprise.

**Ian Howie:** Yes.

**The Convener:** Will the funding be additional or will it come from existing commitments to Scottish Enterprise?

**Ian Howie:** It will not come from within existing commitments to Scottish Enterprise. It will come from within the Enterprise, Transport and Lifelong Learning Department budget.

**The Convener:** But it will not be additional money per se.

**Ian Howie:** That is correct.

**The Convener:** Much of today's discussion has concentrated on sectoral issues, such as biotechnology, but city regions are a major issue in relation to growth. Edinburgh, Aberdeen, Perth and, to a lesser extent, Dundee are growth areas, but Glasgow is the big drag—if I can put it that way—in terms of growth. That comes back to Susan Deacon's question: is there joined-up thinking about encouraging as much of the investment as possible, within the confines of what the market will bear, to boost growth in the new sectors in the Glasgow city region? If we got the figures in Glasgow up to what they are in the rest of Scotland, the Scottish figures would, by definition, improve substantially. Do you take the lead on the city region growth strategy or does another department do that? How is the issue tied in?

**John Ireland:** We are involved to some extent through our work with Scottish Enterprise, but the strategy is worked on primarily in other departments, particularly the Development Department.

**The Convener:** Do you not have any connection with it? It does not seem as though you are joined up.

**Ian Howie:** We personally have not been involved directly in that nexus, but I am sure that there is such involvement.

**Christine May:** It was my understanding that the SCDA was a line in the enterprise department's budget. Can you confirm that that is the case and that the money has not been

siphoned off from some other aspect of the work that was in the budget from the beginning of the financial year?

**Ian Howie:** The money is not in Scottish Enterprise's baseline at the moment, because—

**Christine May:** Sorry. I was talking about the Enterprise, Transport and Lifelong Learning Department.

**Ian Howie:** It is within the department's baseline.

**The Convener:** It is already highlighted in the budget as being earmarked for the SCDA.

**Ian Howie:** Yes.

**The Convener:** What will the budget be?

**Ian Howie:** The figure is £3 million over three years.

**The Convener:** So it will be £1 million a year. Will it cover the HIE area as well?

**Ian Howie:** Yes.

**The Convener:** So it is £1 million a year for the whole country.

**Ian Howie:** Yes.

**Susan Deacon:** I do not want to put you on the spot about your city regions work, but could we have further written information on it? When we pursued the matter with the Minister for Enterprise and Lifelong Learning, concerns emerged about interdepartmental communication and so on.

**Ian Howie:** The growing businesses agenda is broad. You have with you representatives of two divisions of a much bigger department who might not be able to cover all the issues that you are keen to address today.

**The Convener:** We could request a reply from Mr Elvidge—that would give us a total picture. It is important that we get the information, because there is a spatial dimension to the debate about business growth.

**Ian Howie:** Indeed. That is recognised in the refresh of SSS. Business growth is highlighted as a strategic issue, but we will need to come back to you with details about how it is being taken forward.

**The Convener:** No problem.

**Christine May:** I would certainly welcome that, because I still do not see how all the policy areas are integrated and how the work is joined up and structured. I acknowledge that joined-up work happens, but that appears to be more by accident than good organisation.

**The Convener:** It would be helpful if we could get a diagram of how the Executive internally joins

up different aspects of enterprise and economic development, both in the Scottish Enterprise so-called lowland area and the area covered by HIE.

**Christine May:** It would be helpful if that also showed how that work is integrated with the work of other departments.

**The Convener:** Absolutely, especially now that every minister has a responsibility for growth.

That covers what we wanted to ask. We look forward to receiving the additional follow-up information. Thank you for your written and oral evidence.

## Arts in the Community

16:24

**The Convener:** Item 3 concerns arts in the community. The committee has to consider the Scottish Executive's response to our first report of 2005, "Report on Arts in the Community". A copy of the response from Patricia Ferguson has been circulated and at least two members have specific points to raise.

**Christine May:** Page 5 of the Executive's response, which is attached to the minister's letter, mentions that the Chartered Institute of Public Finance and Accountancy is collecting information about local authority expenditure on culture and leisure. My concern is that CIPFA's information is always published 18 months after collection, because it is based on audited figures. I would like us to urge the minister to find some more up-to-date, interim data so that we get the information more quickly and so that it can be used for planning.

**The Convener:** Do we agree to write to the minister along those lines?

**Members** *indicated agreement.*

**Susan Deacon:** I realise that, at this stage in the process, we cannot enter into a protracted exchange with the Executive and I welcome much of its response—it is worth highlighting the fact that the minister's letter records her

"appreciation for the choice of subject matter and for the helpful contribution the Report makes".

However, in a similar spirit of constructiveness—or something—I point out that, on one area, we are in real danger of missing an opportunity. I refer to monitoring and evaluation processes. That matter screamed out at us in our work and was very much a part of our recommendations, but what the minister sets out in response to our findings and recommendations on monitoring and evaluation is the antithesis of what we sought. It is more of the same—top-down processes, guidance and toolkits, monitoring and measuring—rather than a commitment to put in place something that fosters creativity and adopts a lighter touch.

I will not labour the point beyond that, but I have serious concerns with the response on monitoring and evaluation, which, rather than capturing the sentiments that the minister shared with us when we discussed the issue with her, feels like it has come from the system and from officials.

**The Convener:** I suggest that we include that point in our letter to the minister. However, we should bear in mind the fact that, some time in the autumn, we will, I presume, want to discuss the Cultural Commission's report. If the issue has not

been rectified by then, that might be an opportunity to raise it with the minister.

**Mike Watson:** There are a number of points on which the Executive's response is simply to say, "This is within the Cultural Commission's remit and we await its report with interest." Therefore, we should revisit the matter soon after the summer recess to put the Executive's response together with what the Cultural Commission has had to say so that we have a clearer idea of the Executive's view on our recommendations.

**The Convener:** Is that agreed?

**Members** *indicated agreement.*

## Area Tourist Boards

16:28

**The Convener:** Item 4 concerns the Executive's response to our report "Restructuring Scotland's Tourism Industry: Report on the Review of Area Tourist Boards". We have already had the debate on the report, which, although it was short, was good and quite positive. We have agreed that the committee will monitor the review of area tourist boards over time—most members, including the minister, welcomed that idea—and I presume that we will want to revisit the matter early in 2006. If there are no points on which committee members want to get back to the minister, I take it that everybody is happy.

**Members** *indicated agreement.*

**The Convener:** We now move into private. I thank the official report. The public gallery is fairly empty, so it is not a problem to clear it.

16:29

*Meeting continued in private until 17:02.*



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