

ENTERPRISE AND CULTURE COMMITTEE

Tuesday 15 November 2005

Session 2

£5.00

© Parliamentary copyright. Scottish Parliamentary Corporate Body 2005.

Applications for reproduction should be made in writing to the Licensing Division,
Her Majesty's Stationery Office, St Clements House, 2-16 Colegate, Norwich NR3 1BQ
Fax 01603 723000, which is administering the copyright on behalf of the Scottish Parliamentary Corporate
Body.

Produced and published in Scotland on behalf of the Scottish Parliamentary Corporate Body by Astron.

CONTENTS

Tuesday 15 November 2005

Col.

ITEM IN PRIVATE.....	2381
BUSINESS GROWTH INQUIRY	2382

ENTERPRISE AND CULTURE COMMITTEE

23rd Meeting 2005, Session 2

CONVENER

*Alex Neil (Central Scotland) (SNP)

DEPUTY CONVENER

*Christine May (Central Fife) (Lab)

COMMITTEE MEMBERS

*Shiona Baird (North East Scotland) (Green)

Richard Baker (North East Scotland) (Lab)

Susan Deacon (Edinburgh East and Musselburgh) (Lab)

*Murdo Fraser (Mid Scotland and Fife) (Con)

*Karen Gillon (Clydesdale) (Lab)

Michael Matheson (Central Scotland) (SNP)

*Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD)

COMMITTEE SUBSTITUTES

Mark Ballard (Lothians) (Green)

Donald Gorrie (Central Scotland) (LD)

Fiona Hyslop (Lothians) (SNP)

Margaret Jamieson (Kilmarnock and Loudoun) (Lab)

Mr Brian Monteith (Mid Scotland and Fife) (Con)

*attended

THE FOLLOWING GAVE EVIDENCE:

Sandy Cumming (Highlands and Islands Enterprise)

Terry Currie (Scottish Enterprise)

Jack Perry (Scottish Enterprise)

William Roe (Highlands and Islands Enterprise)

Martin Togneri (Scottish Development International)

Jackie Wright (Highlands and Islands Enterprise)

CLERK TO THE COMMITTEE

Stephen Imrie

SENIOR ASSISTANT CLERK

Douglas Thornton

ASSISTANT CLERK

Seán Wixted

LOCATION

North Highland College, Thurso

Scottish Parliament

Enterprise and Culture Committee

Tuesday 15 November 2005

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

Item in Private

The Convener (Alex Neil): I welcome everyone to the 23rd meeting in 2005 of the Enterprise and Culture Committee. I have received apologies from Michael Matheson, Susan Deacon and Richard Baker. I ask everyone to switch off their mobiles, because they can interfere with the broadcasting system.

Under agenda item 1, the committee must consider whether to take item 3 in private. Is that agreed?

Members *indicated agreement.*

Business Growth Inquiry

09:30

The Convener: We have two panels of witnesses for agenda item 2, which is our inquiry into business growth. From Highlands and Islands Enterprise, I welcome the chairman, Willie Roe; the chief executive, Sandy Cumming; and Jackie Wright, whose official title is director of growing businesses.

I thank Highlands and Islands Enterprise, North Highland College, the United Kingdom Atomic Energy Authority and Dounreay for their hospitality during the committee's visit to the north of Scotland.

Two papers have been circulated to the committee by way of briefing for this evidence session. One of those papers is specifically about business growth; the other, which is about population growth, was produced by the chairman of HIE. We thank you for those helpful and informative papers. Willie Roe will kick off and then we will open up the meeting to questions from members.

William Roe (Highlands and Islands Enterprise): Thank you, convener and members. Let me be the first to formally wish you a warm welcome to the Highlands and Islands. We are delighted to see the committee in Caithness as part of your evidence gathering for the inquiry.

I will take three or four minutes, if I may, to make a few critical points about what is happening in the Highlands and Islands and what we are doing to strengthen the pattern of business and business growth. I hope that that will leave the maximum time available for members to probe the areas that they want to probe. I am sure that my colleagues will contribute to most of the answers to most of your questions.

As the convener said at last night's reception, our organisation and its predecessor, the Highlands and Islands Development Board, have been at this business for 40 years. Put together, we form one of the longest-established economic and social development agencies, dealing with a rural region, that we can find anywhere in the world. It has taken three or four decades to turn this region's economy from one that many people assessed as possibly terminal in the 1960s and which caused the HIDB to be established, to one that more than holds its own in many respects. I want to tell you about some of those, but also to identify some of the threats and weaknesses that we are still tackling and to which we have to be very alert. This part of the Highlands and Islands—Caithness and Sutherland—has some very distinctive, if not unique, characteristics; as a

result, there is a lot of turbulence in the local economy and a lot of change still to come in the years ahead.

I will start with one or two headlines that might be familiar but which bear repeating to illustrate the extraordinary change that has happened in the past two generations. Since the mid-1970s, the population of the Highlands and Islands has grown by 20 per cent, while Scotland's population has remained essentially static. In that time, the number of people who are in business or in employment in the region has increased by almost half. Some things have been going in the right direction, especially in the past 10 years, and that has given Highlands and Islands Enterprise—and many of our partners and communities—a sense of confidence that was not around in the region a generation ago. We now have the confidence to go much further than we have gone so far and to take advantage of the success that businesses have had and that communities are having.

The idea that I would like to leave with you at the start of this session is that we and our partners are highly ambitious for the future success of our region's economy and society. We know from a major survey of attitudes that we did last winter and spring, among businesses and the population as a whole, that confidence about the future is high in almost every part of the Highlands and Islands. That confidence, as measured by the survey, is lower in Caithness and Sutherland than it is in other parts of the Highlands and Islands. However, across the region as a whole, the level of confidence in the future is very high. That gives our organisation a sense that we can go much further in building the region's economy.

A few months ago, the Minister for Enterprise and Lifelong Learning launched our strategy for the next few years. Among the strategy's headlines is our ambition to grow the population of the Highlands and Islands to half a million within the next generation. Currently, the population is 435,000. If we achieved that ambition, we would outstrip the expected population growth in Scotland. We are committed to doing that, because we know from experience that growing the population of all ages is a critical factor in the success of business and of local communities and their economies. A raft of opportunities is available for us to do that. The Executive's fresh talent initiative is one such opportunity, but it is not the only one.

We see great prospects for attracting people from other parts of the United Kingdom to the Highlands and Islands, in some cases for the first time, and for attracting back to the region young people who may have left for higher education but want to return for a good career and a good quality of life. As part of our strengthening of the fabric for

business growth, we want to draw more people into the labour market, because the economy requires that to happen and because we owe it to those members of our population who are not in employment to give them the best chance to get into work.

For the first time in a lifetime, we believe that we can do that in the Highlands and Islands. Unemployment in the region has never been lower. As recently as five years ago, the unemployment rate in the Highlands and Islands was nearly twice the Scottish average, but it has been dropping steadily for five years and is now well below the Scottish average. Throughout the past year, our rate has been below the average for Great Britain as a whole. That is completely unprecedented in our region.

Employment is an important indicator, although it is not the only one. We have a strong sense that we can go much further than we have gone before in strengthening that part of the population that is not currently in employment. The skills of those who are in work can be developed so that they can move into higher-paid, higher-value jobs. The skills agenda as well as the welfare to work agenda are very important for us.

Lastly, I want to say a few words about some of the business sectors that are prominent and growing in our economy. I say this to an informed audience here, but I also say it to audiences in Edinburgh, Glasgow, London and elsewhere that are perhaps less informed and which have an often romantic but deeply outdated view of the Highlands and Islands economy. When I started my job as chairman 15 months ago, I asked my colleagues whether they could describe for me the sectors of science and technology that are prominent in the Highlands and Islands. Since then, we have learned that 10 sectors of science and technology are prominent in the region. They include well-known ones such as life sciences, which has come from a near standing start five years ago to being very prominent and fast growing.

Nuclear decommissioning is very significant in Caithness, in terms of both the decommissioning of Dounreay and the building up of expertise that is exportable to many other countries. We want this part of Scotland—this part of the Highlands and Islands—to become a centre of excellence in the skills and practices that go with nuclear decommissioning.

Some sectors of science and technology are less well known. In some cases, that is because they used to be in the Ministry of Defence and were therefore not talked about because they were secret. Now, however, they are in the private sector and are an important part of our economy. For example, one of the world's largest defence

technology and security companies has five plants on the west coast of Scotland.

QinetiQ is an internationally owned company that delivers some of the most advanced defence technical capabilities anywhere in the world. Its seven locations in the Highlands and Islands range from the Sound of Bute up to St Kilda. In Benbecula, it employs 300 scientists, engineers and support workers at one of its biggest facilities. The company provides the highest private sector wages in the Western Isles. It operates complex test and evaluation systems for air, sea and land weapons systems for the western world. The company is also the biggest private sector employer at the Kyle of Lochalsh. Those highly skilled jobs are done by highly skilled people, who are performing great services in our region.

Other sectors, such as agronomy and renewable energy, will grow in the future. In addition, with the roll-out of broadband to almost every part of the Highlands and Islands, many creative and multimedia businesses are being created. Such businesses can be located almost anywhere in the world. There is a wonderful digital cartography company right down in the Mull of Kintyre that serves businesses on three continents. That is only one of many examples.

We see great prospects for our region. I will leave you with three points. First, with all our colleagues we are highly ambitious for our region. Secondly, we must take an international outlook in everything that we do. We cannot find a sector of our economy that is not internationally competitive or that does not need to be; that does not need international investment; that does not need to be international in its ambitions and exports; or that does not need to attract visitors.

Thirdly, we need to be creative, because creativity can wash across every sector—not just those in which it is well known, such as music, arts and culture, but across research and development in every sector, including traditional sectors. The creative cuisine that we found here last night is just one example. We know that the food and drink industries are changing a lot in the Highlands and Islands and that they are important to our economy, but the wonderful thing is the burgeoning of hundreds of small niche and high-quality food, drink and cuisine businesses. It would be wonderful if the Highlands and Islands was known, among other things, for its food culture. I am sure that it will be.

Business growth is critical to our success. It has been in the past, and it will be in future. My colleagues and I will be delighted to answer any and all of the questions that you put to us.

The Convener: We want to cover the broad strategic thrust of the Highlands and Islands as an

area and what is required—not necessarily by Highlands and Islands Enterprise—as well as the specifics of HIE's role.

Christine May (Central Fife) (Lab): As a former catering professional who did her catering diploma in a college very like the one in which we are located, I record my thanks and appreciation to the students and staff. As one food professional to others, I say that last night they did very well.

My question is on your ambition to support the growth of the Highlands and Islands economy. When we visited the UKAEA yesterday, we heard concerns about the size and stability of the broadband connection. Information and communications technology infrastructure and transport infrastructure are listed in your submission as ambitions for growth. Which is your biggest priority, and which is more important for growing jobs?

09:45

William Roe: I will start and my colleagues will respond on the more specific and technical aspects. We drew our ambitions from last winter's public and business attitudes survey, which was the biggest that we had ever done. Of all the issues that people thought were holding back the economy of the Highlands and Islands, transport was number 1 in every part of the Highlands and Islands, for all householders and all businesses. There was no issue of greater significance. That would not have been the case 10 or 20 years ago, when people would probably have said jobs.

Those of you who enjoyed the journey from central Scotland to Thurso by train at the weekend will have experienced the difficulties, complexities and unbelievable time that it takes to move around this small country. We are delighted that you are here, for all sorts of reasons, but you had to experience the journey. For people or businesses that are located here, it is hugely difficult, expensive and time consuming to reach Inverness, which is our nearest city, never mind the rest of our country. Businesses everywhere tell us that we need to get the transport systems—not just one system—cracked in the next generation. In the islands, the issue is often the reliability, frequency and speed of sea crossings. More ambitious people talk, as I do, about fixed links a generation from now where there are currently ferry routes. In the far north of Scotland and in the west Highlands, the issue is the inadequacy of the road, rail and air connections.

Most businesses would say that to you and they say it to us, which is why we have said it to the Scottish Executive and will continue to do so. Although we are not a transport investor, the transport infrastructure is the main factor that

prevents the strengthening and development of our economy. The issue is one of equity as well as economic efficiency. We do not understand why parts of Scotland that are far away from the big cities should be disadvantaged in transport provision. People in those places have the longest and dearest journeys and the greatest downtime for their businesses. The most prominent investment should go into areas that are furthest from the cities, because connectivity of all kinds is one of the main ways in which to grow business and strengthen the economy.

Broadband is not available everywhere yet and the quality of the available broadband is variable. Even when broadband reaches every community in Scotland, as we are assured will happen by the end of this calendar year, it will rapidly be outdated by next-generation broadband, which is already available in big cities in Europe and which needs to be everywhere. The next wave of investments should be biased towards the rural parts of Scotland to give the Highlands and Islands equal opportunities to those that exist in cities. My colleagues know more about the technical aspects than I do.

Sandy Cumming (Highlands and Islands Enterprise): Investment in both telecommunications and transport is incredibly important to the area. If we had to choose, the answer would depend on the part of the Highlands and Islands that we were considering. When one of Willie Roe's predecessors, the late Bob Cowan, decided in the late 1980s to invest in ISDN, I recall that a few people questioned the wisdom of that decision. However, if we had not done that in the late 1980s and early 1990s, the region would have suffered. We understand firmly the huge importance of telecommunications and transport projects. We see the possibility, particularly in the island areas, for investment in telecommunications and transport infrastructure to bring at long last opportunities that have not existed to date. I must hedge my bets and say that I could not decide between the two and that the answer would depend on the location.

We are forming a list of key strategic transport projects. As Willie Roe said, we are determined to be ambitious for our region in relation to opportunities for investment in transport. We see multiple possibilities for strategic projects. For example, we need faster ferries and cheaper fares. We need a better air service within the Highlands and Islands, but we also need international links, which was another of Willie Roe's messages. It is crucial that we have connections soon from the Highlands and Islands to Amsterdam and other places. We would like new investment in rail, as we would love to be in a position fairly soon in which the journey from Inverness to Edinburgh or Glasgow was down to

2.5 hours. Willie Roe mentioned roads, on which we have several ideas, such as tunnels. We do not lack ambitions on transport, although we realise that we cannot achieve them all. Our role as an economic development agency is to make the business case and to demonstrate the potential economic impacts of investment in such projects.

Jackie Wright (Highlands and Islands Enterprise): I cannot really add to that.

Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD): Yesterday, we heard from the trades unions at Dounreay about their concern over possible job losses. There might have been some scaremongering in the press about that; I bought the journal concerned yesterday and had a look at it. In any case, there is no denying that, if we look at the graph for employment, the dip is sharper than we would like it to be. A lot of money is being spent, but it will not be there for ever—it will stop rather sooner than we would like.

On page 3 of your submission, you refer to the

"commercialisation of research and development in wave and tide energy".

We have the Pentland firth and we have the workforce and skills that would be ideal for such development. There is so much current in that firth that it is sometimes described as the Saudi Arabia of renewable energy. My fear is that, if we are not careful—and we would all be guilty—we will not even get to the starting blocks before some other country has done what Denmark did with wind power. We need the sort of commitment that was given to the oil sector in the 1970s and 1980s. What are your thoughts on that? What can you do to co-ordinate with the Executive, the UHI Millennium Institute, the North Highland College and the Robert Gordon University to make the renewables sector a runner, so that we do not lose the race?

Sandy Cumming: For the past couple of years, I have been a member of the forum for renewable energy development in Scotland. FREDs has been a positive development, which has attempted to develop a strategic framework for stimulating development in renewable energy. We believe that we can become that powerhouse. As you mentioned, we have the best natural resources anywhere. The need now is for us to harness those resources to make the best impact, not just for communities in the Highlands and Islands but as a contribution to wider society and to the nation. The question is how we do that.

We have demonstrated a determination not to lose the opportunity with marine renewable energy. Along with public sector partners, we have invested heavily in the European Marine Energy Centre in Orkney, just across the firth from here.

The centre is the first of its kind, and it is state of the art. We have just developed a wave centre and we are working on a tidal centre. Some of the building blocks are in place, but we must now enable some of the new ideas in marine technologies to be brought to the marketplace. Somehow, we must accelerate that. The Portuguese have invested courageously in marine renewables and are doing extremely well. We must stimulate the same level of investment here in Scotland. We want to be a centre of expertise as well as a generator of energy. We want to be remembered as having the expertise, the intellectual capital and the research capability in this area.

There is much to be done. In particular, there is the matter of grid connectivity. If we have the powerhouse, how do we transmit its power to the world? There are some big-ticket issues in that regard. That will start with the strengthening and upgrading of the grid between Beaully and Denny, which is the subject of a planning application. The next question is how we connect the resources of the Pentland firth, the Western Isles, Shetland and Orkney with the opportunity. We are working extremely closely with the Executive and the Department of Trade and Industry to find a way through some of those complex areas.

Jackie Wright: We are trying to drive forward those ambitions, but it is important to have companies involved in renewable energy so that we have a supply chain. That is why we have been investing in Arnish in the Western Isles and in Campbeltown. The sector is young, but we are determined to develop it, both with companies and with the UHI. With the UHI, we are investing heavily in R and D to develop the necessary expertise to ensure that we are not just a net contributor of energy, but a real contributor to the supply chain.

Sandy Cumming: We are an economic development agency; that is what I still call our organisation, which shows my age. We must be risk aware in this sector, but we must be prepared to take risks, too. That is our role. We should be at the forefront, stimulating commercial interest in this whole area, particularly in the marine sector. That is what we are trying to do.

William Roe: I would like to add two points. In our survey, we asked householders and businesses how significant they thought that developments in renewable energy would be. Seventy-eight per cent of residents and 74 per cent of businesses in the region recognised that investment in renewable energy could bring substantial benefits to a region's economy. Positive attitudes to investment in renewables were most prevalent in Shetland and Orkney and least prevalent in the Western Isles, but they were

prevalent everywhere. In every case, support for renewables was more than 60 per cent and, in most cases, it was more than 70 per cent. We believe that there is public recognition of the benefits of renewables and a public appetite for pursuing their development.

I link that to my second point, which is about what is happening at the other end of the spectrum from the big investments, in individual communities. In communities all over the region, there is huge demand for investment in small-scale renewables projects. We have created a specialist company—the Highlands and Islands community energy company—which is working with hundreds of communities on small-scale projects throughout the Highlands and Islands. A great deal of quiet learning is being done on how to tap into heat sources from below the ground, how to use biomass and how to mix the various renewables options. Hundreds of communities and thousands of people are becoming actively engaged in the renewables business on a small scale. That is an important development for our society, which in most cases is made up of quite small communities.

Mr Stone: Do you have anything specific to say about the interface with Dounreay? I know that Dounreay is run by the UKAEA, which is about decommissioning, but we have seen a story in the press from the UKAEA about possible oil sector work. Is there an interface—is a discussion going on between the enterprise network and Dounreay?

Sandy Cumming: Absolutely. For the best part of 10 years, we have worked closely with Dounreay to ensure a number of things. We have sought to stimulate the supply chain so that, as Dounreay is decommissioned, local businesses can take advantage of that. At the same time, we recognise the need to diversify the economy and we have tried to do that, with some success, on both fronts. We have not had zero success; new industries have come into the area. The battery operation that the committee visited yesterday is an example of that.

We now need to grow the number of businesses that come into the area to balance the reduction in economic activity that has been associated with Dounreay over many years. We must anticipate that change and I think that I am right in saying that a recently formed local forum is considering a new strategic framework for joint action. Partners from the public and private sectors will work together to say, "This is what we now need." Personally, I welcome the fact that the timescale has been reduced, as that concentrates the mind and makes us even more determined to find ways forward as quickly as we can.

Shiona Baird (North East Scotland) (Green): I was delighted to hear you talk about micro-

renewables, which get forgotten about when we concentrate on the large-scale projects. Tremendous job opportunities can be created in micro-renewables. You talk about driving forward the renewables industry, but a great deal depends on getting orders. That is the case on the larger scale: Pelamis—the wave machine—needs orders. Orders are what will drive the industry forward and keep us at the forefront of development.

In the context of micro-renewables, the grant that was recently offered to keep the Scottish community and household renewables initiative going is equally pertinent. It was warmly welcomed by the solar panel people, who had been considering laying off workers because sufficient orders would not be coming in. Such practical measures are just as important as research and development, although I do not know how much you can do on that side of things. Orders cannot be created; it is a question of creating an environment in which they will be placed. Micro-renewables represent a vital way of addressing issues of fuel poverty and energy efficiency. Such initiatives create jobs as well as being beneficial to the community. You are obviously keeping your eye on the bigger picture, which is commendable.

I am pleased that you mentioned the social economy in your submission, because it is important in getting people into work. How are you helping to drive it forward? As well as helping to create important entrepreneurial spirit, a lot of small social economy businesses can develop in totally unexpected ways. How do you see the social economy developing across the region?

10:00

William Roe: The social economy is an important part of Scotland's economy as a whole. The best estimate is that 14 per cent of Scotland's gross domestic product is generated in the social economy. The sector is not marginal, but its significance is not recognised.

From the earliest days of the HIDB, we in the Highlands have been active in what is now called the social economy. I am happy to call it that; the term is accurate, given the elements that it combines. The social economy takes a number of shapes and forms in the Highlands and Islands, which is fine, because that is a sign of success. Some of the companies in the social economy provide opportunities for people who were not previously in work—or were thought not to be able to work—to earn and contribute to their economy. One of the best examples of that, but by no means the only one, is a company called Community Opportunities for Participation in Enterprise in Shetland, which employs mainly adults with moderate learning disabilities, none of whom used

to work. They all used to go to the day centre—with the best will in the world—but they now work in a gardening and horticulture business, a furniture recycling business, which is quite large scale, and a hand-made soap and cosmetic manufacturing business. COPE provides them with a new purpose in life and new earnings. That has demonstrated to the population of Lerwick, and Shetland as a whole, that people with moderate learning disabilities can be contributors to society and not just beneficiaries. There are many such companies and there will be many more in the future; we are talking about a model whose time has come.

Even more significant is the relationship between the social economy and the community land ownership legislation. The organisations that are buying the land in many parts of the north, the west and the islands are social economy organisations; they are non-profit-distributing organisations with a democratic base. Many of the early organisations have become very effective. It is hugely interesting that the creation of the companies is attracting large-scale public interest. The levels of voting for their boards of directors are high; typically they are more than 70 per cent and sometimes they are more than 80 per cent. I am sure that you, as members of the Scottish Parliament, would be delighted if your elections attracted that level of participation.

Just last week in South Uist there was huge competition among local people to sit on the board of directors of the latest and biggest organisation to try to take over the land of most of South Uist. A committee has been elected, with more than 75 per cent of the population voting. That is the social economy at work. Purchasing the land is only the beginning, but it is critical. The early runners, such as those in Assynt, advanced their cause in an immensely creative, entrepreneurial and business-like way, which is becoming infectious. On 4 July, I went to Gigha for the day with the Minister for Communities, Malcolm Chisholm. The whole island is throbbing with the social economy that is driving its future forward.

The social economy will be one of the many reasons for sustained success in the Highlands and Islands, especially in some of the smallest and what have traditionally been called fragile communities. Our job is to help make those communities not fragile, and to make them robust, resilient and successful. I have always believed that our job is to create the preconditions for that to happen. The real leadership, drive and enterprise are then in the hands of local people. Our job is to create the conditions, provide the support and help communities to learn from one another so that the social economy can grow and succeed. I am certain that it will.

Shiona Baird: That is really encouraging. It is all about sustainability; we should recognise that sustainable development is a key priority in the Executive, as is growing the economy. The two must go hand in hand.

There is an environmental research institute in Thurso that is examining climate change, which is going to be a real challenge for the Highlands and Islands because of their remoteness. When we talk about transport infrastructure, we have to address the fact that most forms of transport create CO₂ emissions, which will contribute to climate change. There is a real challenge in getting that balance right; in improving the infrastructure while not contributing to the very thing that will eventually have serious impacts on the economy worldwide.

I forgot to mention a chance comment that was made at the end of our conversation at Dounreay. As we were going out, one of the members of staff talked about videoconferencing. One of the keys to the transport and climate change problem is the need to find different ways of working so that we do not need to travel so much. In Norway, videoconferencing facilities are provided in every community centre that serves an area that has more than about 2,000 people. I see that as being a key idea for the Highlands and Islands to develop, so that people do not need to travel to gain expertise or to exchange views.

If we think about the amount of travelling that everyone involved in today's meeting has had to do to come here, we can see how important videoconferencing could be. It is good to come here, because that is the one way in which we can see Thurso, and it happens only infrequently, although I have been up here twice with different committees. That is acceptable, but if day-to-day travelling can be reduced, we should consider how to develop alternatives. To what extent are you developing ideas such as videoconferencing and flexible working? A lot of home working already takes place in the Highlands, but I would like to know more about how we can develop that change in culture.

Sandy Cumming: I whole-heartedly agree. Internally, HIE is a highly dispersed organisation; we cover 50 per cent of Scotland's land mass, from Shetland right down to the Argyll islands, so our management team has found videoconferencing facilities to be of incredible value. If a colleague in Shetland is preparing a case for the management group to consider, rather than that person jumping on a plane and their return journey taking two days at extreme cost, we simply use VC technology. Once we are online, we can engage and discuss any aspect of the paper.

We run our organisation using VC and have done so for a long time. One of the UHI Millennium

Institute's great strengths is that it makes use of videoconferencing technology; that has been a hallmark of the UHI for many years. I am with Shiona Baird on use of videoconferencing. We need to make more communities aware of the opportunities that exist and we need to give them access to VC so that we can connect communities throughout the Highlands and Islands.

We would also like to encourage the Executive to make more use of VC. Too often, we have to make the physical journey to Edinburgh or Glasgow—I for one would like more use of VC throughout my working life.

The Convener: Our predecessor committee, the Enterprise and Lifelong Learning Committee, took evidence using VC from all the Highland colleges in 2003 during its lifelong learning inquiry. That was very effective. Meetings did not take up so much time because people did not have to come to Parliament.

Christine May: A better broadband connection is required to make videoconferencing more effective.

The Convener: Exactly.

Murdo Fraser (Mid Scotland and Fife) (Con): I will explore a little further the issue of infrastructure in the context of the interesting and insightful paper on population growth that Highlands and Islands Enterprise prepared for the convention of the Highlands and Islands. I get the sense both from the paper and from what you have said this morning that in some ways the balance of priorities is starting to shift, and that there has been a turnaround in the economy over the past 40 years and the situation is a lot healthier than it was. There has been improvement in employment rates, which means that although the employment problem has not been solved it has been substantially dealt with.

I accept that there are still challenges—Jamie Stone mentioned Dounreay—but I get the sense that the balance is shifting away from attracting large-scale employers to the area and it is now much more about attracting people and encouraging people whose have lost their jobs to stay in the area. Infrastructure in the broader sense—not only transport infrastructure, but quality-of-life issues such as availability and quality of public services such as health and education—is much more important. Issues such as housing are also important.

The best example I can give is that when I was in Skye in the summer for the first time in three or four years the sense of economic prosperity was palpable. For example, I saw property prices in Skye in the windows of estate agencies in Portree; property prices are always an accurate reflection of the health of the economy. However, that

creates a challenge in itself because people who want to come to the area find it difficult to identify affordable properties. Am I exaggerating, or is it a fair assumption that wider infrastructure issues are now much more relevant than the targeted approach towards attracting employers?

William Roe: The situation is different and both Jackie Wright and Sandy Cumming have more experience in this than I. As we said in our supplementary paper on population growth, there is now serious international competition for people—especially people with skills, capabilities and knowledge, such as scientists and engineers of all kinds, as well as chefs and others. Our region must be able to compete in that marketplace. Therefore, for us “population growth” is far more than a slogan: it will become a major focus of investment and effort, probably for a generation to come.

Western Australia is in the same market for attracting people and it currently runs workshops and seminars all over the United Kingdom to attract scientists, engineers, teachers and health-care workers; it is able to offer them incentive packages, such as we are unable to offer, to move to Western Australia. When you learn about that you realise that there is competition for great people. We do not need many hundreds of thousands more people to come to the Highlands and Islands; we have set our target population at half a million or so and we know that that would make an immense difference. The point is that it is already happening, which is the other reason why our ambition is grounded in reality.

One of our largest international manufacturing companies, Lifescan Scotland Ltd, which is based in Inverness, has grown from nothing to where it is now; it has more than 1,300 employees, including about 200 scientists and engineers. Scientists and engineers from 30 countries in the world now work in Inverness. The company has moved its diabetes research and development capability from California to Inverness and intends to build on it there. The leaders of Lifescan spoke publicly recently about their experience of moving to Inverness. They spoke about the pluses and some minuses. Their insights are special because Lifescan is a global company that works on every continent and in many countries. Some of the positives that they mentioned in respect of their operation in Scotland are the work ethic, commitment, loyalty, teamwork and the dedication of the people whom they find. When they started, they had no idea whether they would be able to find the people to do the business, but they are pleased with the people whom they have found and they have given them a big plus. However, they need more people.

10:15

Lifescan has given the quality of life in the round a huge plus. I am talking about things that really matter in attracting people, their partners and possibly their families. For example, golf courses, castles, beaches, mountains, culture, music, art, safety, education and health care systems are critical. The quality of life mainly gets pluses, but there are areas that can be improved and with which we are familiar.

Infrastructure is at the top of the downside list and the question has been asked whether our country is serious about infrastructure. The leaders of Lifescan have not seen another country in the world whose transport infrastructure fundamentals are so backward and they cannot believe that, with such a hopeless infrastructure, our economy is successful, that we are trying to be a world-class player and that we are trying to make the north of Scotland economically close to the heartlands of markets. They are polite but dead clear about the matter.

Lifescan talks about access. The company is a global company and people must be able to get from Inverness to the world by air, through Heathrow, Amsterdam or wherever. They cannot believe how poor the rail and road communications are from central Scotland to the north of Scotland for its people who come and go and for its products. Most of its products—the billion-plus diabetes-testing kits that it makes—are exported, although they are also used in the United Kingdom. I deliberately make that point again because large and small businesses in all sectors throughout the Highlands and Islands say to us that we ought to invest in infrastructure.

If one stands back from the detail, it will be found that that issue is more significant now than it previously was. Our business used to be—and to some extent it still is, although the balance has shifted—helping to nurture businesses into life, nurturing very small businesses so that they become slightly larger businesses and encouraging the traditional inward investment that has often, although not always, been successful. Nowadays, the focus is on attracting high-quality businesses rather than any old businesses, and on attracting entrepreneurs who want to come here with their ideas and who, with great broadband connectivity, can do their business from here as well as from anywhere else. The balance has shifted, and that has caused shifts in what we do and how we do it.

Sandy Cumming: I want to pick up on a specific issue. The irony is not lost on any of us that land is possibly the biggest resource that we have in the Highlands, although the land supply for affordable housing is inadequate. That issue must be addressed. I am committed to, and Highlands and

Islands Enterprise is very much centre stage on the issue of, community planning and the need to work with others. We see ourselves as having an influential role in that area. We must get into the debate on how critical are opening up the market and trying to address the shortage of affordable housing. I am not talking about the situation only in the inner Moray firth—the same situation persists in every part of the Highlands and Islands. We owe it to the people who want to come here and to those who already live here to address that critical problem. That is the challenge for us. Whenever we take our board throughout the area, there is not a night during which we do not discuss affordable housing. We want to—indeed, we must—come up with creative and innovative solutions, and that is what we are up to at the moment.

I have used the example of Kirkwall. I have heard that its growth will be stymied for the next two or three years simply because the infrastructure is not moving at the same pace as the economic opportunities. We must tackle that problem in Kirkwall, Thurso or wherever and find creative solutions. That is our responsibility in our work with partners.

Jackie Wright: Businesses still from time to time cease to trade for whatever reason, but that tends to cause lesser economic shocks to our region than it did even five or 10 years ago. Sometimes phoenixes arise from their ashes—as they have in Caithness and Sutherland—but sometimes they do not.

We estimate that about 2,500 foreign workers have come into our area. A high percentage of those workers are Polish. As Willie Roe said, we will focus on that area. Businesses are making business out of such foreign workers, which is good. We have made a good start at trying to increase the population, but it is only a start. When we talk to businesses about the barriers to their growth, they often mention a lack of access to skills. Many of those foreign workers are highly skilled.

Another problem is the funding gap, which we can sometimes fill, depending on the case. It is important to formalise the number of foreign workers who come here and to try to ensure that 2,500 people become 25,000.

William Roe: In this changing world of business, investment and entrepreneurship, we are in the middle of building what we hope will be an important alliance for the future with a major research and development institute in the United States. It is full of inventors of new multimedia and digital technology-based products who need access to small and medium-sized businesses that can help them to take their inventions from invention through prototype to the market. The

alliance that we are building with them will enable that to happen in the Highlands and Islands.

Two colleagues from the institute have been with us for a couple of years or so and Jackie Wright has recently been in the United States to cement that alliance further. We will be ready to talk about it publicly in May next year once we have grounded it in our business economy. It is a new approach for us that is about sharing rather than—to put it crudely—exporting or inward investment. It is a new concept of building an international alliance in which we need them and they need us so that together we can do what we believe will be great things for the future.

Murdo Fraser: Thank you. That was interesting. It will come as no consolation to Sandy Cumming to know that the problem of constraints on housing, particularly from Scottish Water, is not unique to the Highlands; it is a major problem in Perthshire and many other parts of Scotland.

I have a quick follow-up question about transport infrastructure—the idea of dualling the A9 at least as far as Inverness is close to my heart. If you had a shopping list of priorities for Government, what would be at the top? Would it be transport infrastructure or something else?

Sandy Cumming: I am looking to my chairman to answer before I come in.

William Roe: The top line is that we are currently building and working on that list of priorities. To tell you which is number 1 would be premature and might not be right, so I would like not to answer with great precision today. In a few months we will with our team, our partners and business leaders have shaped a list of priorities.

I have no doubt that the main arteries between central Scotland and the heart of the Highlands and Islands will be top priorities—they have to be because they are part of the fundamental connectivity of the country. However, ours is a big region and although Inverness happens to be the biggest place, it is only one place. If one goes to Lochaber, Argyll and many of the Western Isles, Inverness does not feature as a critical city, yet those places make equally strong demands—whether the Argyll islands, Oban or Mallaig—to be well connected with the rest of Scotland.

We will have a priority list. As Sandy Cumming said, we see transport infrastructure improvements as being a major challenge for the whole country, not just for the Highlands and Islands. Probably for the first time, our region is a net contributor to United Kingdom plc. The future prospects and success of business in the Highlands and Islands, which includes the lives of businesses and individuals, are being constrained significantly by the inadequacy of transport links with the rest of our small country.

Our predecessors of 30 or 40 years ago were more ambitious than we are; for example, 35 years ago, there was a master plan to build bridges across the three firths north of Inverness in order to transform completely the economy of the inner Moray firth. I am old enough to remember that people thought that it was unthinkable to build those new bridges and roads, and that it would never happen. However, the Ballachulish bridge, which is pivotal in its area, has been there for 30 years, the Kessock bridge has been there for 20 years and the Skye bridge has been there for 10 years.

But what of this year? Those bridges were hugely ambitious, but throughout the 1980s and 1990s, our country's ambition just seemed to disappear. We need to revive that ambition and extend it. And why not? We think that the job of Government and its agencies is to put in place the things that allow business, society and the economy to flourish. If young people could get from Inverness to the central belt in two and a half hours by train, that would change their lives—it would make them feel much more connected to what is going on in central Scotland. It may take five or 10 years, but why not set the ambition to achieve that kind of thing?

Sandy Cumming: Specifically on the A9, let us not lose sight of the area north of Inverness. The case for further investment north of Inverness should not be overlooked—the road is very important to that part of the Highlands and Islands.

The Convener: We have definitely got that message.

Mr Stone: There is a lot of talk of road and rail and so on, but do you agree that the fact that practically no one who came here with the committee came by aeroplane indicates that the use of Wick airport is far from what it should be?

Sandy Cumming: Absolutely. There is an opportunity to enable the communities of the Highlands and Islands to use air services, but—sadly—because of the cost of air travel, it is often only the business community and the public sector that make use of it. We need to make flights available and affordable to everyone who lives in the Highlands and Islands. We are far from achieving that at the moment. More needs to be done, and Wick will play a crucial role.

The Convener: That is a nice cue to go to the only committee member who flew here and who will fly back. I remind everybody to switch off their mobiles and pagers—I can hear noise from somewhere.

Karen Gillon (Clydesdale) (Lab): I had an interesting flight here.

You mentioned that you had created a business to deal with small-scale micro-renewables. How did you do that? I meet considerable resistance to that sort of thing from the local enterprise companies in my part of the world. How do you balance the needs of a growing city such as Inverness with the rest of your diverse area of responsibility? How do you evaluate the impact of major projects in Inverness on the rest of the rural hinterland?

William Roe: I ask Sandy Cumming or Jackie Wright to deal with the specific question on the community energy company.

Sandy Cumming: I would be happy to submit detail on how we went about it, but our driving force was our firm belief—which Shiona Baird mentioned—that we want to leave a legacy for, and to make an impact on, communities through opportunities in renewable energy. We have had hydropower for many years, so renewables are not new to the Highlands, but other than well-being and the advantage to individuals, no particular economic impact has arisen from hydropower. We are determined not to let go the opportunity for communities in the Highlands and Islands in the 21st century. We have been creative, and what we have seen in social enterprises throughout the Highlands and Islands has given us confidence that we can pull it off structurally.

We have a team that is dedicated to taking forward that idea: in four years, we went from having no one in our organisation with a detailed knowledge of the renewables sector to employing four people on what I would call the more commercial side of renewables, and a group of about 12 people on the community side. The committee can sense from that the emphasis that we put on to the community side; the group is out in communities giving advice. Through the community energy company, we can enable communities to raise finance. It is critical that part of their financial burden is shared by an investment from the community energy company. I am happy to give the committee a detailed paper on how we went about that, our success so far and our vision for the future.

10:30

William Roe: The question of Inverness versus other parts of the region is important. I will come at the matter this way: we cannot find a successful rural region in the world that does not have a successful city at its heart. Until some years ago, Inverness was pobbling along as a town, but in the past eight or 10 years its realities have been transforming rapidly; it is on a substantial growth pattern and there is much further to go. Inverness is called a city now, but achieving what a city is like takes a long time. It will never be a big city, but

in many ways Inverness is on track to become a really effective small city for the future.

The transformation in the Inverness economy over only a decade or so is remarkable. It is allowing us to get out of doing a lot of things in Inverness that we previously had to do. I remember the days when there was no property market in Inverness and we were the only people around to invest in building industrial or commercial properties. The situation is now completely different, which is one of the indicators of how things have changed.

Since I became chair of HIE 18 months ago, I have been sharing with my colleagues my insights about what an economic and social agency should do in part of a region that is flourishing, as distinct from what it did when the region was on its knees. It needs to do different things, and we are now doing very different things. For example, in the Inverness area our biggest effort is in a number of major publicly and privately funded infrastructure projects, one of the biggest of which is the centre for health science, which involves combined investment of £14 million or so. The centre is already so successful that it will probably be full on the day that it is completed.

With our partners, we need to ensure that the transport infrastructure around Inverness—I do not mean only roads—is fit for a city for the future. Most contemporary countries that I visit create a vision for what they want a city or city region to be like in a generation. They put in the infrastructure that is needed for the city to be successful—water, sewerage, roads and so on—which fuels the growth of the city. Our approach to transport and water in Scotland, and in the UK generally, is to make do and mend and then when the pressures become unbearable, we do another wee bit. In Inverness, we have now got things right on the roads infrastructure, which involves imagining the future.

The real question was about the balance between Inverness and other parts of the region. There are some things that we need to keep doing in Inverness, because they are important for the whole region. That is the case with some of the big infrastructure projects. The region will never have many facilities such as Eden Court theatre, in which £18 million or £20 million will be invested starting this month. We are one of the investors. There will not be five or six Eden Courts around the Highlands and Islands, because the economy does not require that. However, we know that Eden Court is the most successful venue in Britain at attracting people regularly from long distances. It does not serve only the city economy—it also serves a significant part of the region.

The fact that some parts of our region—not just Inverness—are flourishing is allowing us to

refocus our efforts on other parts that are not doing so well, or which are still very vulnerable or turbulent. Caithness has a lot of turbulence to come, because of all that you have seen and all that we know. It is an area that demands and requires a great deal of creative long-term and short-term investment and planning. We know that parts of north-west Sutherland are lightly populated and distant and that they need sensitive development and support. What is happening in Assynt is a great example of how local ownership can help to turn around such an area.

The islands are becoming highly diverse in their realities and prospects. We are probably going to shift the balance of our investments over the coming years away from the city and towards areas that need to share in the flourishing of the region. Everything that we have talked about this morning is critical to that—transport, broadband, the growing population, and the quality and reliability of the health care system. We know that each of those things gives people the confidence to stay or to come back, to invest, or to buy a house. They also encourage young people to return to the area. Quite fine-grained confidence in the future of a specific peninsula, island or town is, therefore, critical.

We have only one city and in our new strategy we talk about the importance of ensuring that the towns of the Highlands and Islands, of which there are dozens, become flourishing and bustling places. Some of them are and some of them are not. The towns of the Highlands and Islands are more important than the city because they are everywhere—here in Wick and everywhere else.

Sandy Cumming: From day one, we have used a formula for allocating our resources that has been publicly stated. We tend to target the areas that are in most need. That is not popular and it is sometimes not understood. The Inverness local enterprise company area has about 20 per cent of the population of the Highlands and Islands. Normally, we allocate about 10 per cent of our budget to that area whereas, for Caithness and Sutherland, which has about 9 per cent of the population, our indicative allocation will be about 14 or 15 per cent of our budget. We have chosen to allocate our budget and run our business in that way because we recognise that the needs and the costs of transforming some areas are substantial. For example, we have taken a lot of criticism for the amount of money that we have allocated to the Western Isles in recent years. We are a regional economic development agency with a regional policy and we firmly believe that, in order to transform the economies of those areas, we must put a substantial amount of our financial resource towards making a difference to those areas. I am happy to share with you again how we do that.

Karen Gillon: That is very refreshing and I would be glad to see it happening in my constituency.

The Convener: Christine May has a quick supplementary question on Inverness.

Christine May: To some extent, Sandy Cumming answered my question in his last comment. I am curious to know how, in areas of increasing prosperity, you adjust the formula so that you still have the capacity to deal with pockets of unemployment and areas of severe long-term structural decline, which are common to all cities. Do you have the flexibility in your formula planning to do that? Can you tell us a bit about that?

Sandy Cumming: We like flexibility, as we do not believe that one size fits all. The way in which we approach economic development in the Western Isles is therefore quite different from our approach in the inner Moray firth. Especially in the Inverness community, there has been a significant reduction in the amount of investment in individual businesses. As Willie Roe said, we believe that we make the preconditions for growth in the Inverness area, so we invest in the big, strategic projects such as Eden Court, the centre for health science and the transformation of Inverness airport into a modern commercial business. We believe that those are the important areas on which we should focus our attention.

Outwith the inner Moray firth, we are probably more traditional in the way in which we support individual businesses, but we recognise that the other areas too need transformational projects, which do not all come along at the same time. We have to be flexible and recognise that we may have to invest a significant amount of money in a transformational project in Thurso one year and in one in the Western Isles in the next. That tends to be how we do it. It is a question of reacting to opportunities and occasionally being proactive in saying, "This needs to be done." We need to establish an understanding in our communities of the fact that, in some years, we will not invest large sums of money in their area and to explain the reasons for that.

The Convener: As well as covering an area that is bigger than Belgium, you have the second largest number of islands to cover in the whole of Europe—Greece is the only country with a larger number of islands. What are you going to do about the islands—particularly the Western Isles—and the opportunities that may exist there? The regional unemployment statistics for the Highlands and Islands show that unemployment remains a major problem in the Western Isles despite all the efforts that have been made. Do you have a specific islands strategy, or are you developing one?

William Roe: The Western Isles is one of the areas in which sustained and rounded success—I use those words carefully—is yet to be embedded in a way that gives us great confidence for the future. Although unemployment is higher in the Western Isles than it is in the Highlands and Islands as a whole, it has been coming down to an historically low level.

The Convener: Is that not due to depopulation?

William Roe: No. People say that it is due to depopulation, but in fact the population of the Western Isles rose slightly in 2003-04. It did not rise significantly and I am not suggesting that the rise is a confirmed trend, but depopulation is not a significant factor.

There is a long way to go in each part of the Western Isles. We have made some major investments, some of which have been successful and some of which are quite risky. We are in the business of taking calculated risks, especially in areas in which there are not as many opportunities as there are in bigger towns and cities.

Each island is distinct. There are 95 inhabited islands, from Arran up to Unst. To take those two as an example, Arran and Unst need different attention and support. Now that many other parts of the region are flourishing, I hope that we will be able to turn our attention more significantly to the islands. I take a lot of confidence from what has happened in the past decade or so on many of the Orkney islands; in parts of Shetland; on Skye, which was full of problems a generation ago; and on smaller islands such as Gigha and Tìree.

This winter and spring, a major £7 million investment is being made in new air services to some of the Argyll islands from a renewed airport at Oban. That investment will provide new air links from Coll, Colonsay and Tìree to Oban. New airfields and terminals will be built on Colonsay and Coll this winter and from next summer there will be new air services to Oban and then straight to Glasgow. That is a pivotal step on the way to helping the islands to find a better future for themselves.

Each island is unique and each island group has distinctive characteristics. Over the years, you will see us refocusing some of our effort and appreciation towards the islands.

Jackie Wright: We find that our island communities have the highest percentage of business start-ups and we put more resource into that. Sadly, not all of them appear in the national statistics because not all of them are VAT registered, but they are important nonetheless.

In places such as Gigha we found that changing the ferry times by an hour to allow children to come back home from school each day has

helped to repopulate the islands and stimulate their economies. That is in addition to all the work to which Willie Roe alluded.

Sandy Cumming: I remain disappointed that, although the Sir E Scott School in Harris wins national Young Enterprise awards every year, we have failed to allow talented young individuals to create businesses in their own communities. That is the challenge for us. They have the basic resource, but how do we give them the confidence and the conditions of growth that they need to go forward? That is what we need to do.

The Convener: Finally, I seek two points of clarification. Sandy Cumming highlighted the lack of available land for housing, which is a major barrier to growth in most of the Highlands and Islands. Did you retain the HIDB's compulsory purchase powers?

10:45

Sandy Cumming: No, we do not have the HIDB's original powers.

Taking Murdo Fraser's example of Skye a bit further, I find it remarkable that most of the land under ownership in Skye is owned not privately but by community-based organisations. That represents a massive opportunity for us. However, the difficult part is not making the land available but putting in place economic infrastructure including water, sewerage and everything else in order to connect up to that opportunity.

The Convener: So the legislative framework is fine, but the policy and resources need to be applied.

William Roe: On that point, ministers have approved our strategy, "A Smart, Successful Highlands and Islands", whose headline calls for a growth in population to half a million within a generation. We know that, as night follows day, meeting such an aim will require substantial new housing and other infrastructure such as water and sewerage. As far as the one Scotland programme and joined-up government are concerned, it is essential that other agencies such as Scottish Water and those that invest in transport whose investments are needed to help us to achieve that ambition chime in behind it.

The Convener: My final question brings us back to Murdo Fraser's point about transport priorities. I realise that the issue is still under consideration, but will you determine those priorities according to criteria such as the net economic impact on the Highlands and Islands, or are you looking at other criteria?

Sandy Cumming: The issue is critical. How do we, when asked, evaluate and decide among three, five or 10 strategic projects? We have yet to

tease out the final methodology, but it will concentrate on the economic impact that will be generated and various community and environmental aspects. We have to look at the matter in the round and I am very determined that we do not lose sight of the many facets of transport investment.

The Convener: We have had a very comprehensive set of questions and answers. I thank the witnesses very much. This evidence-taking session has been helpful for our business growth inquiry, which covers the whole of Scotland, not just the central belt.

I suspend the meeting for five minutes to give Jack Perry a chance to catch his breath and to allow the rest of us to get a quick cup of coffee.

10:47

Meeting suspended.

10:58

On resuming—

The Convener: I reconvene the meeting after what has turned out to be a 10-minute suspension. I apologise for coffee not being readily available, but some has just been supplied to us.

Our second panel of witnesses are from Scottish Enterprise. I welcome to the meeting Jack Perry, chief executive of Scottish Enterprise; Martin Togneri, chief executive of Scottish Development International; and Terry Currie, acting senior director of the growing businesses group at Scottish Enterprise. I ask Jack to introduce this session, after which we will move to questions.

Jack Perry (Scottish Enterprise): I thank the committee for inviting us along to give further evidence. We have already submitted written evidence to the committee and I was previously advised that I should not prepare an opening preamble because the committee would prefer to get straight into questioning. I am very happy to do that. I think that members are familiar with our respective roles and we understand that you are interested in making further inquiries into certain areas.

The Convener: I thank the Scottish Enterprise team for coming to Thurso. I realise that, like the rest of us, you had a fair journey yesterday.

We begin with Jamie Stone.

11:00

Mr Stone: No, no—you go first, convener.

The Convener: No, no—you are the local member.

Mr Stone: Well, not for Scottish Enterprise.

I want to talk about a pet interest of mine, of which my colleagues will be sick of hearing. I refer you to paragraph 6.3 of your written submission, on R and D plus. This is blue-skies thinking, but if you were all-powerful and all-knowing, how would you change public sector research and development investment? Are there too many funding streams and are they confusing for academia and industry? Is there a more revolutionary or sharper way in which to do things? You should bear in mind when answering that we have considered the examples of Finland and Sweden, although we have not written our report and I cannot predict what will be in it.

Jack Perry: That is interesting. We are taking a good look at funding streams because the situation is potentially confusing and it is sometimes difficult for us to evaluate the effectiveness of some of our activities. Our support of and interventions for the commercialisation of intellectual property in Scotland start with enterprise fellowships, the proof of concept fund and the intermediary technology institutes, and go on to R and D plus, together with the funds to support early-stage companies that are largely involved in investing in R and D, such as the business growth fund, the co-investment fund and the new Scottish investment fund. In addition, there are the various grant schemes, such as the small firms merit award for research and technology, the support for products under research scheme and the small company innovation support scheme. That is all potentially confusing.

None of that support and intervention matters much if we do not end up with a base of profitable Scottish companies. We find that all the programmes do useful stuff but that we do not join them together terribly well. There is a need for us to consider the programmes as a pipeline of innovation that goes from the earliest stages of good ideas to the formation of companies, which we will fund and, we hope, get on the road to profitability.

The challenge for us is to join up the programmes much better than we do. Looked at in isolation, the programmes all show much promise. For example, R and D plus has been successful beyond our initial expectations. For £15 million of investment, we have attracted £120 million of new R and D that otherwise would not have happened in Scotland. The programmes themselves are fine, but we could probably get smarter at managing a company through the process.

Karen Gillon: I want to take you down a bit from blue-skies thinking to a more practical level. We had an interesting presentation from Highlands and Islands Enterprise. One of the issues that we

talked about was strategic direction and allocation of resources. What kind of strategic direction do you give to your local enterprise companies? What kind of budget allocation do you make? What kind of formula do you have for that and how is it determined?

Jack Perry: Gosh, those are very broad questions. The overarching, broad strategic direction is the three strands of "A Smart, Successful Scotland". Overwhelmingly, the direction that we try to give throughout the entire network and not just to the local enterprise companies is that we are about stimulating better and faster levels of economic growth in Scotland. We do that by working with our customers to help them to improve their productivity and by sharing the risk of their investment.

The investment might be in the skills of our customers' workforce, in research, in new technologies or in intellectual property, or it might be financial investment through the business growth and co-investment funds. The investment might also be in the business infrastructure, to make Scotland a better place in which to invest. That is basically our direction. We are a support for business, which is our focal customer. If an activity meets the criteria that I have just described, that is fine; if it does not, we should not be doing it.

The other aspect of your question was budget allocation. Last year, we removed some of the budgetary constraints on local enterprise companies. We told them to bring us good projects. It is up to local enterprise company boards to bring us those projects and, so far, they have responded well to that challenge. Last year, our pipeline of projects was not particularly full; this year, we have projects in the pipeline in excess of our budget. The challenge and the criteria for them is to bring us projects that add economic value for Scotland. If our business units in the network are coming up with more projects than we can cope with, we have two alternatives. First, we can allocate what we have based on what projects will add the most value to the economy or we can go back to the Executive and ask for more money. So far, we are examining the projects closely to see which ones will create most value.

Karen Gillon: I have particular issues about my area. I suppose that whether you think that the major projects that are being suggested by the local enterprise company boards are in the best interests of the community depends on where you sit. What do you base your spending allocation decisions on? HIE told us that it has a percentage allocation based on need that is given to each area to spend. How does Scottish Enterprise work in that regard?

Jack Perry: Each business unit is asked to submit a draft operating plan to us that sets out what it wants to do during the year. We do not have a fixed formula for any one business unit; it is up to them to make their bids effectively. We reconcile those bids each year.

Many of the local enterprise companies have fixed commitments that take up at least two thirds of the budget in any year. For example, many of our infrastructure or capital projects last for a period of years and our commitments to those who are in training often last in excess of one year. There is a fixed element that each local enterprise company has in its budget in any year. Beyond that, it is up to them to come to us with projects. We will fund good projects based on the economic opportunity that the business unit is able to give us.

Karen Gillon: How do you balance the big sexy projects against the small local projects?

Jack Perry: A large chunk of each local enterprise company's budget is discretionary. Local enterprise company boards can approve projects worth up to a couple of million pounds without reference to the national Scottish Enterprise body.

Currently, we are a little concerned about the fact that local enterprise companies' budgets can be dissipated on a number of small projects that do not necessarily have a huge impact. We are currently considering that in depth. However, it is up to local enterprise companies to make those decisions. Terry Currie might want to amplify that.

Terry Currie (Scottish Enterprise): The acid test is which projects that the local enterprise company and its partners believe to be critical have not gone ahead because of a lack of budgetary resource. That question has been asked many times over many years and the answer is, invariably, none.

Karen Gillon: Can I turn that question round? If the critical mass is concentrated on developing the big sexy projects, such as Ravenscraig, it will not be concentrated on the development of the small-scale projects, which will, therefore, not go ahead. That is my criticism of the organisation. I have yet to see a major infrastructure project in my own constituency come through the Scottish Enterprise network.

Terry Currie: As an ex-employee, I am delighted to hear you describe Ravenscraig as a sexy project.

Karen Gillon: It is if you are from Motherwell.

Terry Currie: I am not surprised that in rural Lanarkshire there have not been many major infrastructure projects. What there has been is a whole series of small projects that are skills and

business development led. Taken together, they have had as big an impact in certain areas as some of the major infrastructure projects.

Karen Gillon: We heard HIE speaking today and we have heard about the development of small business parks to draw in businesses. However, I do not see that happening in my area. As far as I am concerned, those are major infrastructure projects. They are not major compared to a Ravenscraig project, but they are major for my constituency. I see it happening up here, but not in rural Lanarkshire, and I want to know why.

Terry Currie: To be fair—and we are probably in danger of boring our colleagues with our knowledge of rural Lanarkshire—over the past 15 years infrastructure projects and business parks have been constructed in Lanark and Douglas. The Caldwellside industrial estate in Lanark—

Karen Gillon: Fifteen years ago.

Terry Currie: That has happened within the past 15 years and within the life of Scottish Enterprise; that is the point that I am making.

Karen Gillon: I will pursue the matter later.

Murdo Fraser: I would like to ask a very general question that arises from your written submission to the committee. One of the criticisms of Scottish Enterprise, if you do not mind my saying so, has been that the organisation tries to do too many things and therefore lacks focus. When I looked at your written submission, I got a sense of déjà vu; it seemed to be no different from what Scottish Enterprise could have said two, three, four or five years ago. You have been chief executive for 18 months or so, and you came in as a new broom with new ideas. However, when I look at the submission, I do not see too many new ideas. How are you trying to take the organisation forward rather than just do what you have been doing for many years?

Jack Perry: I am very happy to explain that. First, we are restating some of the fundamental objectives of Scottish Enterprise to get the focus that I talked about when I said that our purpose as an organisation is to support businesses by sharing the risk of investment.

What we have been doing during the first 18 months of my tenure has been largely to do with the effectiveness of what we deliver at present. Much of it has been internal housekeeping to get the organisation fit for purpose. It has included the implementation of our intervention frameworks. That is a horrible expression, but what it means is looking at the broad categories where we intervene and trying to make sense of the more than 550 different programmes that we offered—we thought that there were 550, but we discovered

a further 60, so in fact we had 610. Those are now down to 250 and we will have them down to 85 by this time next year. That is a major step in reducing the clutter and confusion that our customers most often complain about.

We increased our overseas sales force by nearly 50 per cent in the past year. We have introduced a completely new approach to our operating planning process by removing the budget constraints on the local enterprise companies, which they had complained about. We increased their delegated authority limits substantially. We took £3 million of overhead costs out of the business. We completed the business transformation project, which saved the organisation £170 million over five years. We also completed the reduction in our headcount by 560 people.

We launched the companies of scale pilot programme to work on the stem of the wineglass economy that we have talked about. Some of its initial results are enormously encouraging. We have beefed up our high-growth start-up unit; they have increased the number of companies with which they work quite effectively. The top three finalists in the Deloitte fast 50 awards that were announced last week were clients of the high-growth start-up unit, as were special award winners MTEM, which got the highest private equity financing of any early-stage company in Scotland.

11:15

We have launched R and D plus; we are about to launch the Scottish investment fund; and we are now launching the structural review of Scottish Enterprise. We have actually been pretty busy. All the initiatives that I have mentioned came about without our touching the structure, but we are now at a stage where we feel that the structure is getting in the way of the clearer accountability and delivery that we want. We also want to address points to do with our clarity of purpose. We will be going to ministers with our proposals early in the new year.

Murdo Fraser: Thank you for that comprehensive answer. Your written submission did not give the impression that all those exciting things were happening.

Jack Perry: I apologise for hiding our light under a bushel. Perhaps we should not do that.

Murdo Fraser: You lead me on neatly to my second question. You have spoken about internal housekeeping and the structural review. The week before last, the committee considered the budget process. The budget figures for management and administration in Scottish Enterprise still show a year-on-year increase despite everybody's desire

for more efficient government and for agencies to be leaner and more focused on delivery. How can you make your organisation more efficient and spend less on overheads and head office functions? What are your views on the future of the LECs in the context of the structural review? Do we need so many LECs and are too many of their functions duplicated at local level?

Jack Perry: Like you, I am very concerned about our spend on controllable overheads. We are undertaking a complete line-by-line review within the organisation and are on track to take out £3 million of overhead cost. However, I regret to say that in the background we have had some substantial property cost increases at Careers Scotland. Many of the 80-odd properties that we inherited when we took on Careers Scotland were simply unfit for purpose. More than that, they did not meet basic health and safety requirements. There has therefore been a huge rationalisation of those properties which, in itself, involved quite a bit of expense. The remainder of the properties have been upgraded. Many of the properties were not on Scottish Enterprise's balance sheet in the first place, so we have had to take on the property liabilities that we inherited and that has counterbalanced some of the savings.

In addition, increased pension costs are enormous. The entire public sector is facing that problem. Our employer contributions are going up by a full 8 per cent in the coming year. That is happening despite our best efforts to continue to attack our cost base as you would expect any prudent management team to do. We will continue to attack our cost base, but other factors are cancelling out some of the benefits.

You asked about local enterprise companies. We are consulting a broad range of people on the issue. We will not be proposing the closure of any LEC office, but we will be considering some sweeping changes in governance to try to get better-functioning metropolitan regions than we have at present. Some of our approach has been fragmented and there have been duplications. Neighbouring LECs may be putting in very similar bits of infrastructure or may be duplicating projects. That is what we are trying to eliminate. We have a very complex form of governance, which is expensive and time consuming. We have 13 boards in the organisation, all of them for statutory limited companies. That means 13 audit committees and 13 sets of statutory accounts. Increasingly, board members are telling us that that is not an effective use of their time. We want to engage with businesses and local communities on a strategic vision in the enterprise agenda, which will help us to develop the projects that will make a difference in their area. We do not want to be involved in endless amounts of governance and we are trying to address that.

Murdo Fraser: That is all very interesting. I would not expect you to share with the committee today the sweeping changes that you have in mind, but can you at least indicate the timescale within which we might expect some decisions?

The Convener: Before Jack Perry answers that question, I remind members that Nicol Stephen gave the committee a commitment two weeks ago that we would be consulted on the proposed changes before a final decision was made. I have agreed with Jack Perry and John Ward that they will brief the committee on those changes some time in January. We should therefore not dwell on that until the proposals are nearer to being final recommendations.

Jack Perry: Indeed, and our respective staffs are working on a date for that briefing.

Murdo Fraser: Thank you.

Shiona Baird: What priority do you give to the social economy?

Jack Perry: Terry Currie will answer that because he is currently working on several areas to do with that. The social economy is an important part of the economy. For some of what we do in skills and learning, it performs as well as, if not better than, some of the programmes that we offer. There are opportunities to contract out to social economy organisations some of what we do, and we are quite keen on that.

Terry Currie: When I gave evidence to the committee in May, I was asked a similar question and I acknowledged that until about three or four years ago, the social economy was not on Scottish Enterprise's radar. When Wendy Alexander was the Minister for Enterprise and Lifelong Learning, she raised the profile of the social economy and its importance. She was quite demanding of Scottish Enterprise and encouraged us to work specifically with the social economy. Since then, we have agreed with our colleagues in Communities Scotland that we should target the real growth companies within the social economy, which are fairly significant. Many housing associations turn over many millions of pounds per year. They can be confronted by the same issues that private companies face, such as management, marketing, product development and skills development.

For each of the past three or four years, we have had a target number of social economy organisations to work with—we have to assign an account manager to work with them. We are talking about a total of 200 organisations per annum. Of course, there are many thousands of social economy organisations and it is difficult for us to engage with them all. If truth be told, it would be much less appropriate for Scottish Enterprise to engage with them than it would be for

Communities Scotland and other community organisations.

In summary, until three or four years ago, our performance in this area was non-existent. Over the past three to four years it has been ramped up significantly and hopefully we now afford the right amount of effort to this growing and increasingly significant sector of the marketplace.

Shiona Baird: I would like that to be reflected in your briefing papers and documents, which do not refer to that to any extent. That gives the impression that the social economy does not rate that highly. If that is what Scottish Enterprise is doing, it would be good if it was recognised.

Jack Perry: We are happy to provide you with further information about the extent of what we are doing.

The Convener: It might be useful if you could give us a quick update on the Scottish co-operative development agency, which I think is to be a subsidiary of Scottish Enterprise.

Terry Currie: Our board agreed to establish the co-operative development agency some three months ago. In the intervening period, we have been trying to identify a chairman, board members and, in particular, the chief executive. We expect to make appointments within the next few weeks, and we expect the show to be on the road early in the new year.

The Convener: Will the CDA have overall responsibility for Scottish Enterprise's involvement in the social economy?

Terry Currie: No.

The Convener: Will it cover co-ops, specifically?

Terry Currie: It will cover co-ops, specifically. There are around 245 co-operatives in Scotland, and the remit of the CDA will be to grow that number significantly. We will apply specific targets to that. There are a whole host of other organisations involved in the social economy.

The Convener: We will not ask you what dividends we might expect.

Shiona Baird: Martin Togneri has not yet been given the opportunity to contribute, so perhaps this question will allow him to do so. Scottish Enterprise's submission refers many times to the environment, but always to the business environment. There are huge concerns in the global market about oil and natural resources and about the enormous pressure that China is putting on those areas, which will eventually affect us all. What is your vision for the future in Scotland, bearing in mind the global effect of the Chinese demand for oil—which is being depleted—and the

sheer volume of natural resources going into the far east?

Martin Togneri (Scottish Development International): I will offer my chief executive the chance to join in this discussion later, if I may. As far as Scottish Enterprise is concerned, the vision for the energy sector and for the environment goes well beyond what we do in the international arena. We work with businesses that can compete, or can aspire to compete, in international markets. We deal with technologies that will either help countries with their own environmental targets or help companies to sell products and services that meet the environmental ambitions of overseas buyers. We work with companies such as Ocean Power Delivery Ltd and we are now also working in the overseas market—we will talk to at least one Californian company this winter about the possibility of inward investment. We work with overseas companies that are operating in the same environment.

Generally, our role in the international division of Scottish Enterprise is to support the internationalisation of companies in our priority industries, of which energy is one; and renewables is an important subsector of the energy industry. We work with companies that operate in the priority industries for the enterprise networks.

Shiona Baird: Oil depletion will impact on us all. How do you tie that in with business development?

Jack Perry: We have been closely examining those industries whereby Scotland will be allowed to make its living in what is a mercilessly competitive global economy. One of those industries is energy. We have a twin-track approach here. What you say about oil is right. We might disagree on the time horizon for the remaining oil reserves—I have seen estimates ranging between 25 and 100 years—but, for the foreseeable future, the world will be dependent on oil.

Scotland has some good fossil fuel technologies, which we want to exploit further. That will involve clean coal and will mean using the extractive industries to make existing fields more productive for longer. We would like Scottish companies to go out to the world, particularly when it comes to clean-coal technology in China, which will be dependent on coal-fired power stations for the foreseeable future. That is the sort of area that we want to grow.

One of the most encouraging developments, which again is in Martin Togneri's area, is the incubator unit in Houston, Texas, which is our most successful companies incubator unit overseas. Four or five companies related to the extractive industries have graduated from that unit and we now have nine Scottish companies

operating there, all of which are taking Scottish technologies to the North and South American oil fields. The technologies range from bacteriological testing to corrosion and subsea technology, and to monitoring and measuring equipment. That is enormously encouraging—we want to do more such work.

The other track in the energy sector is renewables and the successor technologies, which we want to beef up. Our aim is to put more effort into stimulating greater demand in the key industries, which include renewables and extractive technologies.

11:30

Shiona Baird: There is an awful lot more than renewables to sustainable development, which has not been recognised yet. I return to my point that the issue is the finite nature of natural resources. How much emphasis do you put on reuse, on addressing businesses' waste of resources and on the consideration of innovative ways of designing waste out of the system and of using waste as a resource? Huge opportunities exist that are being considered and taken up in other countries, but they seem to be passing us by.

Terry Currie: We have a large number of business development programmes in which we work one to one with companies in a range of sectors on minimising waste and deriving business benefit from recycling. That is probably where we have the biggest impact on driving such improvements.

Jack Perry: Several companies with which we work that are at the business-growth-fund stage or the investor-readiness stage are involved in recycling technologies. We are conscious of the issue. Perhaps we could do more but, in some respects, we respond to demand. We are happy to work with good business propositions, particularly innovative ones.

Christine May: I have a range of questions, the first of which is probably the easiest—I recall asking it before. Where do you think you sit on the spectrum between a business development agency and an economic development agency? As a subordinate question, is that explicit enough in what you say to ministers and in what ministers say to you?

Jack Perry: That is a good question. My colleagues may wish to supplement my answer. First and foremost, we are an economic development agency. Under "A Smart, Successful Scotland: Ambitions for the Enterprise Networks" we had a broad mandate and we wanted to be more focused in what we delivered. We are encouraged that, following the refresh of "A Smart,

Successful Scotland", the document is no longer guidance for just the enterprise networks, but for Scotland's economic development and that it now outlines dependencies that we must have on others if we are to grow the Scottish economy.

The refresh also gave us the mandate to focus more on being a business development organisation. We carry out many other activities in addition to business development. Through Careers Scotland and some of our skills and learning programmes, our customers are individuals rather than businesses. I am on record as saying that that range of customers is not ideal and that I would like us to have greater focus.

Do we have absolutely clear guidance? "A Smart, Successful Scotland" is a fairly wide-ranging document. We have been working towards having more clarity in our operating plan and the annual report in which we account for what we have done with it. We hope to get more through our structural review.

Christine May: Do you accept that all the activities that are currently covered in your remit are necessary for business growth, which is the subject of the inquiry? Are you saying that you would prefer others to carry out some of those tasks, to allow you to focus more directly on business growth?

Jack Perry: I would like the organisation to focus more on business growth. However, I go back to some of the points that I made in answer to a question from Karen Gillon. It is about working with businesses to improve their productivity. We talked about the various ways in which we share the risk of investment in skills, which is important for workforce development. We are investing in new technologies, as part of our commercialisation of Scottish research. There is financial investment to cover funding gaps. Investment in business infrastructure is also very important. That is more indirect support, but it is absolutely vital. We would like to see greater focus on the areas that I have listed. Other important activities could be passed on. It is right and proper for government to address those issues, but I do not think that we as an economic agency should be pursuing them.

Terry Currie: The recent review of our growing business strategy addressed the subject in a balanced way. We identified each section of our business marketplace: volume business start-ups, high-growth start-ups, business growth companies, corporate Scotland and the broad business base. We reached conclusions about the impact that those sectors are making in Scotland and the particular impact that we are making in each of them. That part of the strategy was very much about business support. However, the review also recognised the importance of the wider environment: access to investment, the

development of skills, technical support for innovation, physical infrastructure and transport linkages. During HIE's evidence, you had a long conversation about transport. There was clear recognition that we provide business support and assist businesses on a one-to-one basis, but that we require a platform to support that activity. We spend more money on supporting the business environment than we spend on supporting businesses on a one-to-one basis. The review struck the right balance.

Christine May: Is that significant area of investment geared more towards the building of high-growth businesses, at the expense of smaller, more dispersed, local businesses?

Terry Currie: Not at all. A fundamental part of the growing business strategy review was to examine each segment in turn and to identify the impact that we were having on it. We reached the conclusion that, in the short term, the impact of supporting volume business start-ups is fairly low, because of displacement and dead weight, but that in the long term it is fairly high. For that reason, we must be in the business of volume business start-ups. The question for us is what level of appropriate support should be available for specific segments of the marketplace? That is not to say that we believe that one is more important than the others, but there are various levels of appropriate support. It is incumbent on us to be efficient in addressing that issue properly. Obviously, our high-growth start-ups have a huge impact, and we want to do an increasing amount in that area. The problem is not finding the resources, but developing the projects.

On the broad business base, one of the key lessons from the review is that the ad-hoc targeting of many companies has little impact. We have to sharpen up the definition of the growth pipeline within the broad business base.

It is not a case of picking winners. We have 2,500 to 3,000 companies that are account or client managed. That is not about picking winners but about recognising that a fairly intense relationship is required to move the companies ahead. We are still assisting 9,000 to 10,000 start-ups a year, which costs a significant amount of money. In the budget, the allocations for business growth and support for the broader base are about equal.

Martin Togneri: I echo Jack Perry's comments about our being an economic development agency. The conclusion after many years of analysis is that the best way to be an economic development agency and to develop the economy is to have business as the focal customer, although not the only customer. In my area of international activity, with the exception of the talent Scotland project, which focuses on bringing

career opportunities in Scotland to the attention of individuals overseas, almost all of what we do is business focused. It is about helping Scottish businesses to internationalise and attracting businesses based outside Scotland to get active in doing business in or with the Scottish economy. Of course that does not mean that we are not connected to the non-business focused parts of what the enterprise networks do. The infrastructure projects that local enterprise companies have run are a large part of what makes areas attractive to both domestically headquartered and overseas companies for investment and development.

Jack Perry: I am glad that you started with the easy question.

Christine May: I would like to develop this a bit further without necessarily wading into the structural reform. Some of the stuff that we have read in the newspapers suggests that the preferred option is to have two divisions. How does that fit with there being four city regions for planning purposes? Do you see a tension there? Would having four divisions rather than two be a solution? What is the emerging thinking on the balance between development in the city and focus on the regions and—I am wading into a really contentious area—the balance between private sector activity and public sector activity in metropolitan regions? I will come back with a really easy question once you have answered those.

Jack Perry: We are considering ways in which we can develop a more coherent metropolitan regional approach to economic development in Scotland. One thing that concerns us is the great disparity in wealth creation between cities such as Glasgow, Edinburgh and Aberdeen, which perform well by any UK standard, and the immediately adjoining areas—in Glasgow's case, Inverclyde, Dunbartonshire and Ayrshire. I understand that the commuting effect accounts for some of that, but it does not explain the difference entirely. High performing metropolitan regions do not show such great disparity.

We would like to come up with a more compelling vision for the metropolitan region that focuses more on the key industries in which we think Scotland can make its living. We want to find out how demand from such industries can be stimulated—demand for a higher level of skills, new technology, more attractive places in which to operate—and met throughout the metropolitan region. I say emphatically that it is not about pouring lots more money into the cities. Nevertheless, they are magnets for investment, so we would want to continue with some of the major projects that we undertake at present.

11:45

It has been reported that we are considering two regions in Scotland, which would be wider than the metropolitan regions. I understand that it is hard to make a case for Aberdeen City and Aberdeenshire, for instance, being an integral part of an Edinburgh-based metropolitan region. That might be an administrative convenience for us, but it may not suit the needs of that economy. We are looking closely at whether it makes economic sense to go with just two regions and we are consulting on what the best regional fit might be. As Christine May has pointed out, there is regional structural planning and increasing co-operation. We have had more support for a better connection with and inclusion of the Dundee area within the east of Scotland metropolitan region. A lot more could be done to join up Tayside, Fife and Edinburgh—that could be quite economically powerful, and we are working on that. It would be wrong to talk about a favoured option right now. There are two or three ways that we could cut this. We want a more coherent approach to the development of a metropolitan region than duplicating projects and programmes in neighbouring places.

For example, when I first came into office I had a look at the projects in all the LECs. Some good things were happening in Edinburgh and the Lothians, including the development of port facilities and industrial and commercial space in Leith. In Forth valley I heard about similar proposals for Grangemouth. In Fife I heard pretty much the same story about Rosyth. I became a bit alarmed about whether there was sufficient market demand in what is effectively one economic system along the Forth estuary. We now have a Forth estuary plan, which does not replicate and which sets out a more coherent purpose for each of those port facilities. That is an example of the type of closer working that we can do at the moment. However, it forces us down a route of complicated partnerships, which is not a smart way of working. We would like to sweep away some internal barriers to making our metropolitan regions function more effectively than they do.

Christine May's final point was on the balance between public sector and private sector activity. If we strip out the rather unfortunate emotional language, we are having a useful debate in Scotland. There is wide disparity between regions' dependence on the public sector. High-performing regions are generally less dependent on the public sector than some of our poorer performing areas. I make no comment beyond that. Our role is to help the private sector to grow.

Christine May: Would you accept that in a metropolitan region—with the city as the powerhouse, if you like—public expenditure will

increase the nearer one is to the periphery? That is logical and it is replicated throughout the world.

Jack Perry: It is possibly not as polarised as it is here.

Christine May: In that case, what is your strategy for growing the small enterprises in the more peripheral areas, which would perhaps reduce dependency on public sector? I hope that that is something that we can explore with you later, maybe during the restructuring debate. Other issues arise from that, such as what the role of the current business representation on the LEC boards will be.

I turn to innovation—not the intermediary technology institutes—and to the statement that I have repeated in the chamber on several occasions, which is that most new products involve innovative combinations of existing technologies. The point is to see the potential in those combinations. What are you doing to encourage Scottish business and academic institutions to collaborate in such innovation alongside world leaders in target markets, or in markets that might become target markets so that we can grow indigenous businesses and their overseas operations?

Jack Perry: Martin Togneri will respond first, then I will add a couple of points about developments that we are working on in that very area.

Martin Togneri: In the international arena, we do quite a lot of work with the universities. For example, in the past the commercialisation arms of some universities have been resident in our incubators overseas as they have tried to find markets for the technologies that have been developed in their academic institutions. We have had some success in the past couple of years with a collaborative venture called voyages of discovery, with the Royal Society of Edinburgh. The project was designed to bring to Scotland in groups the chief technology officers—or their closest possible equivalents—of major multinationals so that we could show them the best of what Scotland has to offer in the research areas that are of interest to them.

We have flexed the model a little over the period of the project because it was difficult to get 12 senior chief technology officers to commit a week of their time in the same week. We now offer more flexible models, such as a company-specific voyage of discovery for a multinational in which, through a combination of having some of its people in Scotland and videoconferencing with its other researchers, we can bring together 10 or 12 academic institutions and companies over three or four days. We enable the Scottish institutions to show the best of their wares either physically, to

the people who come from the company to Scotland, or virtually—by means of videoconferencing—to groups of researchers. In the most recent example, the corporate business in question was able to bring 120 of its research staff together to see the best of what Scotland has to offer. Those are a couple of examples of how we work with academic institutions to try to pair them up with foreign corporations that might be interested in their technologies and in combining them.

Terry Currie: A number of the projects that have come through our high growth start-up unit involve the principals working closely with universities to develop innovative uses of existing technologies.

Another initiative that is about to be launched is the manufacturing advisory service, which is based partly on the English model. That approach acknowledges that our manufacturers require a level of expertise and advice that is probably not available in the main stream. We expect the service to get off the ground within the next two or three months and we think that it will facilitate greatly the innovation process in manufacturing. We have also been running lean management programmes, which are part and parcel of that process, over the past two or three years. It is fair to say that our work on that is done through individual businesses rather than through large initiatives; I believe that that is where we get the greatest pay-off.

Jack Perry: I talked earlier about some of the key industries in which we think Scotland can prosper in the future. One of the reasons why we need to go down that route is that the figures on our productivity in relation to research—the statistics will be well known to members—indicate that our universities are highly productive, given that we produce 17 per cent of all higher education patents in the UK, but our business expenditure on research and development runs at half the UK rate and the UK rate is about half that of some of our major competitors.

Increasingly, we find—particularly among our SME base—that, compared to the rest of the United Kingdom, there is a significant under-investment by Scottish businesses in skills and learning, in the higher level skills of their people and in new technologies and processes and process improvement. That is borne out by other surveys; I became aware of it when I was the chair of the Confederation of British Industry.

We think that there is an opportunity for us, through better account management, to broker higher levels of demand from businesses within certain specific industries. We know that we can do that through work that we do with our account-managed customers. We will work with companies

so that they understand market dynamics around the world. We can take them to see higher performing businesses, introduce them to new technologies and broker links with universities and so on to try to stimulate greater levels of demand, particularly from our SME base, than exists at present. We have to do that by considering the sectors in which we know that there are outstanding technologies or skills available in Scotland.

We are working on a couple of major projects with indigenous companies in Scotland: one is to do with energy and the other is to do with life sciences. In them, we are harnessing the power of a consortium of universities and major overseas investors. Those are exciting projects and could transform the sectors by bringing new investment and pulling in greater demand from indigenous businesses.

The Convener: This morning, Highlands and Islands Enterprise told us that in order to maximise the potential of the economy of the Highlands and Islands, there are three main priority areas—outwith with activities of HIE—that need action on the part of the Scottish Executive: housing; the realisation of UHI as a research university as well as a teaching university; and major improvements to the transport infrastructure.

In lowland Scotland, outwith the activities of Scottish Enterprise, what are the priorities that will ensure that we are successful with regard to the smart, successful Scotland policy? What are the areas in which more needs to be done or things need to be done differently?

Jack Perry: That is a good question; I think that the answer is similar to the one that you received from HIE. We were successful in ensuring that some of the broader dependencies were laid out in the refreshed version of “A Smart, Successful Scotland”. The issues that you are asking about are also fundamental to a coherent metropolitan regional strategy.

We can do much in terms of working with businesses to stimulate growth, but we are highly dependent on others doing their part. If the economy is genuinely the number 1 priority in Scotland, we would like to see alignment of other branches of the public sector towards that goal. We have made it clear that the constraints on growth are things such as: planning reform, change to which is essential; water and sewerage, because a number of our projects to increase our industrial and commercial capabilities are constrained by that; and transport, which is absolutely key, not only in terms of ensuring that our metropolitan regions are more cohesive and that people and goods can move around more easily, but in terms of connecting the metropolitan regions.

Those are some of the problems. The other piece in that jigsaw is, obviously, education. The work of futureskills Scotland tells us clearly and authoritatively that we have a few skills shortages and a number of skills gaps. We find that we have to offer programmes for people who need to retrofit skills that should have been instilled in them much earlier in their educational careers. We have some dependencies in that area.

I would like any compelling metropolitan regional strategy that we come up with to contain a very clear definition of what our roles and responsibilities are, and to explain the nature of the dependencies in areas where we are dependent. We are not in a position to express those dependencies at present, other than through the broad categories that I have just explained.

12:00

The Convener: I want to press you on that. Glasgow and Edinburgh are the two biggest metropolitan regions in Scotland. Are the hoped-for improvements to the M8 or the provision of a bullet train between Glasgow and Edinburgh top priorities or is it more important to extend the road link—the A92 or whatever it is—from the Forth bridge to the Tay bridge, or to extend the A77 down into Dumfries and Galloway?

Jack Perry: We have done no such prioritisation of projects. Until now, that has been regarded as being outwith our remit, but we probably would want to take that task on board. [*Interruption.*]

The Convener: I hear Karen Gillon asking why that work is outwith your remit.

Jack Perry: We have considered certain projects that are on the stocks, such as the Borders railway. We have assessed their economic impact and their value from the point of view of the development opportunities that they would create for us. However, we have not done a thorough economic impact assessment—from our perspective—of the 10 major transport infrastructure projects and then tried to rank them.

The Convener: You have identified that Glasgow and Edinburgh are two key drivers in the metropolitan regions, but have you taken that process far enough to allow you to say what developments are necessary for those regions to succeed in maximising their potential, in the same way that HIE has said that, to maximise the potential of the Inverness metropolitan region, for example, the dualling of the A9 is needed to reduce travel time?

Jack Perry: It would be the easiest thing in the world for me to say, “Yes, we need this,” but I would not care to do that without having carried out an economic analysis to back that up.

Terry Currie: In fairness, we are giving the same answer that HIE gave. HIE did not say that it would prefer dualling of the A9 to anything else; it said that it had not analysed the situation. Our answer is the same.

The Convener: HIE is, however, working on the priorities. Are you doing a similar exercise?

Jack Perry: We do not yet have a metropolitan plan that sets out our approach and our vision. I would like the priorities to be encompassed in that plan. I do not know whether we will get there in year 1 of a new structure because it will take some time to develop.

The Convener: Are not we talking about a chicken-and-egg situation? Your argument on restructuring is that the strategy must be based on the metropolitan regions because that is where the success is, but what is the justification for saying that?

Jack Perry: In addition to the evidence that the cities review provides, there is work that has been done on metropolitan regions elsewhere. Greg Lloyd has done work in Dundee and we have looked at successful metropolitan regions, such as Vancouver, Toronto, Stuttgart and Stockholm. The evidence shows that effective metropolitan regions are the drivers of growth. At the moment, the situation in Scotland is highly fragmented: 32 local authorities, 23 local enterprise companies, 14 universities and all their various layers are involved in delivery. We must at least sort out some of the clutter that we are responsible for creating before we tackle the dependencies. At the moment, we do not have a coherent approach.

The Convener: I would welcome Scottish Enterprise going down the road of prioritisation to maximise the growth of lowland Scotland; I am sure that other members of the committee would too, even if we did not necessarily agree with your priorities. The priorities could be in housing or transport and, within each priority, you could say where most opportunities to boost economic growth lay.

Jack Perry: We absolutely want to do that. It is very much part of our plan.

The Convener: Is that a commitment?

Jack Perry: It will be a commitment if we can get through the changes that we want to make.

Karen Gillon: I am slightly confused about why that has not already happened. I know that you want to restructure, but why does Scottish Enterprise not have a strategic vision for lowland Scotland that states that with your experience over the past 15 years, you want, for example, for the benefit of Scotland as a whole to upgrade the M8 to three lanes along its length and so on.

Jack Perry: That is the case for a variety of reasons. I will tell the committee a couple of things that we have done. Our local enterprise companies have relatively narrow remits; to develop Fife or Lanarkshire or Ayrshire, for example. Two years ago, a five-year infrastructure investment plan for Scottish Enterprise's territory was created, which set out the priorities of the major plans, including Leith waterfront, Aberdeen technology parks, Dundee digital media parks and regenerating the Clyde waterfront. That plan was prepared so that we could examine the Scottish perspective and try to eliminate some of the competition, duplication and narrower objectives of the individual LEC areas. It was an attempt to sort out conflicting demands and to examine the issues over a longer period.

On transport connectivity, transport has never been within our remit, other than narrowly; we have done most of our work on air routes. We are happy to work with the new transport authorities, for example on the Clyde waterfront project, where we are joining up three different local enterprise companies. There has also been a strong link with Strathclyde Passenger Transport Executive.

Karen Gillon: Okay: you are not responsible for delivering transport infrastructure projects, but I find it amazing that the enterprise and economic development agency for Scotland does not have a vision for a transport infrastructure. That is incredible.

Jack Perry: That is the nature of what we have done, and it is why we have stated clearly that we need a clear statement of our future dependencies on transport if we are to deliver economic growth for Scotland.

The Convener: Scottish Enterprise has a number of roles under the legislation that set it up. One is to advise on and examine what is economically beneficial to the country, another is to deliver services, and so on. We are saying that the vision stuff—which is below the blue sky but between it and the ground—would be extremely helpful, given the expertise and experience in the organisation.

Jack Perry: We very much want to do that. I agree that any compelling regional strategy for Scotland needs to make a clear statement of our dependencies on others. I have outlined the main ones that should be included.

The Convener: The evidence that we have received in our business growth inquiry demonstrates that one of the major challenges in Scotland is the absence of anything like sufficient private sector investment—you referred to that earlier. I want to ask specifically about private sector investment in research and development. As you know from previous evidence, Janet

Brown, Gerard Kelly and people from the Scottish Executive identified that, at the moment, we are spending about \$900 million a year on private sector R and D. That compares with Nokia—one company—which next year will spend \$2.4 billion on R and D. The latest figures show that private sector investment in R and D in Scotland has gone down in absolute numbers.

Obviously, you have the ITIs and various other things, but the scale of the challenge is enormous. Scottish Enterprise and the Scottish Executive have identified that to reach the levels of our Organisation for Economic Co-operation and Development competitors—and particularly to reach the Lisbon targets for investment in R and D as a percentage of GDP—we will have to spend an extra £1.5 billion per year. That is clearly a major remit for Scottish Enterprise.

We know about the work that you are doing with the ITIs and we know that R and D plus is a successful programme in terms of leverage, but even with the best will in the world we are not on course, given the spend that is required. Even with the leverage that you are getting from R and D plus, we are nowhere near closing the gap. What else do we have to do in the next 10 years or so to close the gap?

Jack Perry: In our submission, Martin Togneri outlines where we might be if we did not have overseas investors who invest in R and D in Scotland. They make up a huge percentage—

The Convener: Two thirds, according to your submission.

Jack Perry: Yes. They make up two thirds of business expenditure on R and D in Scotland. That is a bit frightening. It is welcome, and we would like more of it, but we need to try to stimulate things in Scotland a bit more.

The constraining factor is not public spend. In Scotland, we spend a disproportionately high amount on developing basic research in our higher education sector. We are making the initial investment in the public sector but we are not seeing the uptake from business.

The Convener: You were not going to say, “Soviet levels of R and D”, were you?

Jack Perry: I would not dare to say that.

As I outlined earlier, the answer is to focus on the key industries in which we have some critical mass and some outstanding technology that has a genuinely global market, because the Scottish market is extremely small. We must work closely with companies on an account-managed basis to try to stimulate a greater level of demand. The interventions that we offer include opening people's eyes through enterprise fellowships, helping people to prove concepts, helping early-

stage businesses to get finance, working with SMEs on R and D foresighting through the ITIs and the various grant schemes for innovation. Those are the right programmes.

We have looked around the world—Martin Togneri has probably seen this more than I have—and the programmes that we offer are admired, copied and highly rated. More public spending on research and development is not the answer. The answer is to stimulate higher levels of business demand. We think that we can work with companies in a better way than we do at the moment. We can put more muscle into the key industries with some genuine industry experts.

The Convener: Why does Scottish Enterprise think that the private sector in Scotland is so poor—in comparative terms—at investing in R and D?

12:15

Jack Perry: I suspect that we all have our own opinions on that. A lot comes down to the basic corporate landscape in Scotland and to our friend the wineglass economy. The vast majority of our businesses—two thirds—have no employees at all; the companies in the stem are relatively small. In the Royal Bank of Scotland survey of the top 100 companies, companies that are placed below position 28 in terms of value added drop below £200 million.

Therefore, in terms of meaningful amounts of money that are available to be spent on R and D, we are looking at a relatively small company base. Structurally, our corporate landscape is fragile and I worry greatly about that. The top 100 companies are subject to all the normal corporate transaction pressures, so there will be normal merger and acquisition activity. Quite a bit of that is going on at the moment, as well as lots of speculation about what is happening with a couple of our major corporates. I regard that as quite healthy.

However, things get unhealthy when we do not have the feedstock of fast-growing, medium-sized companies coming through to replace those taken over during normal M and A activity. I would like us to place a bit more emphasis on working with companies that can scale up and perhaps rise above the £200 million level, because I fear that the fragile stem of our corporate landscape is very weak.

The Convener: Obviously, the role of the ITIs is critical in tackling that problem, and I thank you for your helpful letter that clarified some of the recent speculation that appeared in at least one Sunday newspaper—perhaps it was also in others.

One statistic stands out in the letter:

"To date there has been £70 million invested in market driven research programmes that engage with businesses and research institutions in Scotland and beyond, over 63 per cent of the programme participants being Scottish small and medium businesses."

The R and D figures in your paper show that the R and D plus programme has been very successful. I am giving you the opportunity to talk about what is your letter, but there is obviously concern about what is happening with the ITIs. I fully accept the explanation that there has been misreporting of what has—or has not—happened. However, we are concerned that two of the three chief executives, who cost a lot of money to recruit and who certainly impressed the committee in the two or three times that they appeared before it, have resigned. That could just be coincidence, but our worry is about the damage that could be done to confidence in the ITIs in future. I do not want to pursue that point in too much detail, but you have the opportunity to update us on the ITIs. I would rate them as having been an outstanding success in the time that they have been operating in a field in which success has a high priority. Would you like to say one or two things about that?

Jack Perry: I would be absolutely delighted to.

Christine May: Could you also take on board the comments from certain sectors of industry that the ITIs are too bureaucratic and constraining and that there are too many hoops to jump through?

Jack Perry: I am happy to answer all those points as best I can. Your question was very wide-ranging, convener, so if I forget any elements of it, please remind me.

In very broad terms, let me make it absolutely clear that the ITIs remain a landmark project for Scottish Enterprise. We went in with a 10-year commitment and that remains valid. It was reconfirmed when Shonaig Macpherson, the chairman of ITI Scotland, came to our board last month and gave a very good account of what the ITIs have been doing and of the changes that she and her board have initiated. The board endorsed those changes and issued remarks in support of both Shonaig Macpherson as chairman and the work of the ITIs.

I agree that the figure of £70 million looks very impressive, but we should be clear about the element of risk that is involved. The ITIs have placed research contracts to the value of £70 million. Those projects were foresighted by ITI members as they looked at the future commercial and market potential of various proposals; however, we have yet to spin a single company out of them. That is what we expected at this stage. If one judges the ITIs' success in terms of our cash outlay on interesting projects that we think will meet future market demand, they have done what we expected of them. However, they

must remain on track to achieve the targets that we want them to achieve.

The Convener: Are you suggesting that they are not achieving those targets?

Jack Perry: Not for one moment; I am simply saying that they have achieved what we wanted them to achieve at this stage. However, we must not confuse these matters. The aim of enterprise fellowships, the proof of concept fund, the ITIs, the Scottish co-investment fund, the other grant programmes that we offer and all our interventions is to get profitable Scottish companies out at the other end. The ITIs are a long way from demonstrating that capability. Much of their success will rely on the aspirations, willingness and capability of the ITI members and others to create profitable businesses by running with the outputs of research programmes. We have reaffirmed our support for the project and believe that it is the right thing to do. However, it will be some time before you see the fruits of it. We are simply saying "Well done" to the institutes and are pleased that they have reached this particular stage; however, we must remain focused on the outputs that we want them to achieve.

As far as funding is concerned, the ITIs have been given everything that they asked for in their operating plan. However, we rejected their operating plan for next year, which came in at substantially more than the £45 million a year that they asked for initially. We were concerned in particular about the high level of management and administration costs that had been built into the original budget. However, the ITI Scotland board has responded very positively to our concerns and is now taking active steps to get the situation under control.

We have also indicated that, if the ITIs have a pipeline of projects that will genuinely add value to Scotland, we will happily consider making additional funding available. Indeed, we have demonstrated that those are not just words. For example, when the Scottish Enterprise board became aware of the major and very exciting Stirling Medical Innovations project, it pledged additional support of £30 million over three years. Contrary to what was reported in the papers, that money is not repayable to Scottish Enterprise. We provided that additional funding to enable ITI Scotland to carry out its entire programme without having to sacrifice any of its existing projects. We have made it clear to ITI Life Sciences and the other two ITIs that any similar exciting projects will be considered, as will any project that is suggested by a LEC or by anyone else. The Scottish Enterprise board is absolutely committed to projects that will create added value for Scotland.

On Christine May's related question on bureaucracy, I was very concerned about having new, wholly owned subsidiaries of Scottish Enterprise, and the fact that ITIs came up with a budget in which management and administration accounted for 25 per cent of the costs. I should perhaps point out that the Stirling Medical Innovations project, which was launched by Inverness Medical Innovations, came in through Scottish Development International, not the ITIs. We realised that the project was an excellent fit with the institutes and that it could make Scotland a more valuable proposition. The whole process was remarkably quick: after Inverness Medical Innovations came through the door with its proposal, it took only three months for the deal to be signed. If there is bureaucracy in the system—and goodness knows that we have our fair share to deal with—it will not be found in the ITIs or in our ability to turn round innovative projects quickly.

The Convener: I have two final, brief questions. First, what is the timetable for replacing the two ITI chief executives who have departed the scene?

Jack Perry: We are currently working on that. To some extent, my answer is, "How long is a piece of string?" Recruitment is going on as we speak but, if one is looking for capable people who are currently in employment, a lot depends on their notice period. I am pleased to report that the deputies, who are acting up, are very capable individuals and the projects are still flowing through. In fact, a new digital media project was unveiled just last week. The pipeline is still working and the ITI Scotland board, under Shonaig Macpherson, is doing what we would expect it to be doing.

The Convener: As we are discussing management and administration, which Murdo Fraser raised earlier, I want finally to compare the budgets of Scottish Enterprise and Highlands and Islands Enterprise—which, it is fair to say, is largely comparing like with like. I notice that, for every pound that HIE spends on management and administration, it delivers £3.70 of programmes and projects, whereas Scottish Enterprise delivers only £2.63 of projects and programmes for every pound that it spends. Is there a logical explanation for such a differential?

Jack Perry: I have never made that comparison. Indeed, I am not absolutely certain that one is comparing like with like. I would like to understand the figures a bit better.

Scottish Enterprise carries out a number of central functions on a national basis, including the management and administration of Careers Scotland, SDI and the Scottish co-investment fund, all of which HIE benefits from. We bear the cost of those Scotland-wide programmes without recharging organisations such as HIE. I would like

to understand the nature of the discrepancy that you have outlined.

The Convener: I understand that you cannot go into the details of that today, but it would be useful to receive a written response to that question. It suggests that there might still be a problem with the management and administration element of Scottish Enterprise's budget.

Jack Perry: I should also point out that the figure that you mentioned has been greatly affected by certain significant IT projects that we have invested in, such as the customer relations management project.

The Convener: That covers all our questions. I thank the witnesses yet again for coming to Thurso. Your evidence and submissions and our earlier sessions with Janet Brown and Gerard Kelly have been very helpful. I look forward to seeing you some time in January.

Jack Perry: We look forward to it.

The Convener: We move on to item 3. As we have agreed to take it in private, I ask everyone to leave the room.

12:28

Meeting continued in private until 12:35.

Members who would like a printed copy of the *Official Report* to be forwarded to them should give notice at the Document Supply Centre.

No proofs of the *Official Report* can be supplied. Members who want to suggest corrections for the archive edition should mark them clearly in the daily edition, and send it to the Official Report, Scottish Parliament, Edinburgh EH99 1SP. Suggested corrections in any other form cannot be accepted.

The deadline for corrections to this edition is:

Tuesday 29 November 2005

PRICES AND SUBSCRIPTION RATES

OFFICIAL REPORT daily editions

Single copies: £5.00

Meetings of the Parliament annual subscriptions: £350.00

The archive edition of the *Official Report* of meetings of the Parliament, written answers and public meetings of committees will be published on CD-ROM.

WRITTEN ANSWERS TO PARLIAMENTARY QUESTIONS weekly compilation

Single copies: £3.75

Annual subscriptions: £150.00

Standing orders will be accepted at Document Supply.

Published in Edinburgh by Astron and available from:

Blackwell's Bookshop
53 South Bridge
Edinburgh EH1 1YS
0131 622 8222

Blackwell's Bookshops:
243-244 High Holborn
London WC1 7DZ
Tel 020 7831 9501

All trade orders for Scottish Parliament documents should be placed through Blackwell's Edinburgh

Blackwell's Scottish Parliament Documentation
Helpline may be able to assist with additional information on publications of or about the Scottish Parliament, their availability and cost:

Telephone orders and inquiries
0131 622 8283 or
0131 622 8258

Fax orders
0131 557 8149

E-mail orders
business.edinburgh@blackwell.co.uk

Subscriptions & Standing Orders
business.edinburgh@blackwell.co.uk

RNID TYPETALK calls welcome on
18001 0131 348 5412
Textphone 0845 270 0152

sp.info@scottish.parliament.uk

All documents are available on the Scottish Parliament website at:

www.scottish.parliament.uk

Accredited Agents
(see Yellow Pages)

and through good booksellers

Printed in Scotland by Astron