



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 22 May 2013



---

**Wednesday 22 May 2013**

**CONTENTS**

	<b>Col.</b>
<b>DECISION ON TAKING BUSINESS IN PRIVATE .....</b>	<b>2845</b>
<b>SCOTTISH ENTERPRISE .....</b>	<b>2846</b>
<b>REGULATORY REFORM (SCOTLAND) BILL.....</b>	<b>2879</b>

---

**ECONOMY, ENERGY AND TOURISM COMMITTEE**  
**16<sup>th</sup> Meeting 2013, Session 4**

**CONVENER**

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

**DEPUTY CONVENER**

\*Dennis Robertson (Aberdeenshire West) (SNP)

**COMMITTEE MEMBERS**

\*Marco Biagi (Edinburgh Central) (SNP)

\*Chic Brodie (South Scotland) (SNP)

\*Rhoda Grant (Highlands and Islands) (Lab)

\*Alison Johnstone (Lothian) (Green)

\*Mike MacKenzie (Highlands and Islands) (SNP)

\*Margaret McDougall (West Scotland) (Lab)

\*David Torrance (Kirkcaldy) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Iain Scott (Scottish Enterprise)

Julian Taylor (Scottish Enterprise)

Lena Wilson (Scottish Enterprise)

**CLERK TO THE COMMITTEE**

Jane Williams

**LOCATION**

Committee Room 4



## Scottish Parliament

### Economy, Energy and Tourism Committee

*Wednesday 22 May 2013*

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

### Decision on Taking Business in Private

**The Convener (Murdo Fraser):** Good morning, ladies and gentlemen. Welcome to the 16th meeting in 2013 of the Economy, Energy and Tourism Committee. I remind everyone to turn off or, at least, turn to silent their mobile phones and other electronic devices to avoid them interfering with the sound equipment.

I turn to item 1 on the agenda. Are members content that we consider our draft report on Bannockburn 2014 in private at this and future meetings?

**Members** *indicated agreement.*

## Scottish Enterprise

10:01

**The Convener:** Item 2 is evidence on Scottish Enterprise's annual accounts for 2011-12 and its spending plans. I am delighted to welcome Lena Wilson, who is the chief executive of Scottish Enterprise. She is joined by Iain Scott, chief financial officer, and Julian Taylor, executive director, strategy and economics. Welcome to you all.

Before we move to questions, Lena Wilson would like to make an introductory statement.

**Lena Wilson (Scottish Enterprise):** Thank you very much. Good morning, convener, members and clerks. It is very nice to be back; it does not seem long since we last appeared before you.

When we were here in October, I shared with you our draft budget and made a commitment that, in these challenging times, we would work to make every penny of that budget count and to be even more transformational for Scotland's economy.

As far as the economic environment is concerned, despite the fact that there continue to be challenges in the global economy, we are beginning to see some promising signs. It is important to focus on that—it is not all doom and gloom. We have had two consecutive quarters of growth, the labour market is improving—the latest figures, which came out last week, show the biggest quarterly increase since 1992—and there are greater levels of confidence in areas of the economy. The most recent Bank of Scotland purchasing managers index report highlighted that there had been private sector expansion for the seventh consecutive month and that it had hit a 12-month high.

However, we also know that the world is changing, and the global economy is definitely changing along with it. For Scotland to remain competitive, we need to be even more ambitious and even more transformational in everything that we do, which means making even more tough choices. Over the past year, we have seen some extremely positive results from the relentless focus on growth that I have talked about.

Last year, we supported a record 2,096 companies to target new overseas markets, which represents an increase of 52 per cent on the previous year. I know that that is an issue that the committee was keen to discuss last year. Our 229 high-value international projects are expected to increase export sales by £818 million over the next three years. Scotland has attracted more than £500 million of capital and other investment through inward investment in the past year. Our

Scottish Investment Bank has helped to secure £80 million of private funding for Scottish firms—that is about £2 of private investment for every £1 that we invest from the public sector. We continue to work with the best Scottish companies to unlock their potential. I am referring to companies such as Wolfson Microelectronics plc, Skyscanner Ltd and EnerMech, which have all made the headlines in recent weeks for winning new business, exporting, innovating and expanding.

I turn to our business plan focus. Earlier this month, we published our latest business plan to show how we intend to deliver even more. It sets out how we will squeeze every drop of value for Scotland's economy from the investment that we make. It is about staying on course, doing more of what we know is working—we have deep evidence to support that—and trying to do it better and faster. It is about driving greater investment in innovation and capital projects to make us more competitive on the global stage. That is why we say unashamedly that our priorities remain the same: renewables, growth companies, innovation, international trade and investment, and the low-carbon economy. We will also place much more emphasis on driving greater investment in innovation and capital projects, to make Scotland more competitive.

We have prioritised those areas because we know, from the deep evidence that we have, that they will deliver the biggest return to the Scottish economy. On the basis of some of the strongest evidence and analysis that Scottish Enterprise has ever had, I am confident that our delivery plan demonstrates how we can continue to deliver and stay focused on the very best growth opportunities for the Scottish economy.

**The Convener:** Thank you. As you know, the committee is very interested in Scottish Enterprise's forward plan and how it will support economic growth. The focus of this meeting is scrutiny of your budget and forward plan. We want to consider how you will use the resources that the Scottish Government gives you to support your strategy.

We will probably address quite a broad range of issues. I know that members want to ask about research and development and commercialisation, the creation of high-quality jobs, access to finance, support for renewable energy—a keen interest of the committee—and the balance between supporting domestic companies and encouraging inward investment.

I always ask members to keep their questions as short and focused as possible. We have quite a lot of ground to cover, and it would be helpful if answers were also as short and focused as possible, to enable us to get through the questions in the time that we have allocated.

I am sure that you read the *Official Report* of our meeting last week, when I asked Highlands and Islands Enterprise about the savings from the strategic forum. The savings from the forum were projected to be £20 million in 2012-13, rising to £25 million next year and £40 million the year after. However, in the spring budget revision, the savings for 2012-13 were reduced to just £5 million. Scottish Enterprise is a key player in the strategic forum. Why has there been a substantial cut in the projected savings from the new initiative?

**Lena Wilson:** You will recall from our discussion about the matter last year that it was hoped that the strategic forum's savings would be effected throughout the public sector. There are five strategic forum partners, and our shared element was £5 million. In effect, the £5 million is the amount that is represented across VisitScotland, Scottish Enterprise, Highlands and Islands Enterprise, the Scottish Further and Higher Education Funding Council and Skills Development Scotland, and the money has already been top-sliced from our budget—we have taken account of that. It was expected that the savings beyond the £5 million would be found throughout the rest of the public sector. Scottish Enterprise is actively playing its part and will deliver all the savings that we committed to deliver. Iain Scott might want to give you a more technical explanation.

**Iain Scott (Scottish Enterprise):** The £5 million that was mentioned at last week's meeting related to joint projects that we are doing with other strategic forum partners. In addition to the joint projects, each partner will have made efficiency savings. We made further savings last year in areas such as marketing costs, facilities management, staff costs and, in particular, procurement. We are still working out the exact figure for those savings, which will be published later in the year when the final accounts are prepared. I expect the additional savings to amount to £6 million or £7 million—I think that they will be in that area. Over and above the joint projects that we are doing, we are making much bigger savings, which will go towards meeting the overall target.

**The Convener:** Are we still on target to achieve the projected savings of £20 million in 2012-13, £25 million in 2013-14 and £40 million in 2014-15, or were the projections too ambitious?

**Iain Scott:** I am not sure of the extent to which each of the five companies will achieve savings, but I imagine that we will be able to make savings through a combination of the joint projects and the individual projects that we are doing. However, as Lena Wilson said, the original targets were not meant to be achieved by just the five strategic

forum bodies; if the types of joint project that we showed could be done were extended to the rest of the public sector, the £25 million to £40 million savings that we are looking at over the next two years would be achieved. That has been more difficult to achieve, as you can imagine, but that was certainly the original plan.

**The Convener:** As far as Scottish Enterprise is concerned, you think that you are doing your bit to make savings.

**Lena Wilson:** And more—we are doing more than double our bit.

**The Convener:** When we took evidence on the Scottish Government's budget back in the autumn, we touched on switching funds from resource to capital, which is fundamental to finding the money to support shovel-ready projects and create employment under the Government's economic strategy.

In the original plans that were published at the time of the spending review, the figure that was allocated for the resource to capital switch for the enterprise agencies in 2012-13 was £95.9 million. In the latest budget plans, the total figure is £30.9 million: £24.2 million for Scottish Enterprise, and £6.7 million for Highlands and Islands Enterprise. That is less than a third of the original sum that was highlighted in the spending review. Why has there been such a reduction in the amount being switched from resource to capital?

**Lena Wilson:** I suspected that Iain Scott would speak early on today. He will give you the technical answer.

**Iain Scott:** Can we double check some of those figures in the published business plan? I am not aware of the figures that the convener mentioned.

On page 35 of the plan, we show an anticipated net transfer of grant in aid from revenue to the capital budget of between £27.3 million and £52.3 million. That is just the Scottish Enterprise element. I am not exactly sure what the details are for Highlands and Islands Enterprise, but I think that the figure would come to more than £40 million between the two of us.

**The Convener:** The figures that I have from the Scottish Parliament information centre say that the Scottish Enterprise figure is £24.2 million in 2012-13 and £50.7 million in 2013-14. The Highlands and Islands Enterprise figures, which are on top of that, are £6.7 million in 2012-13 and £18 million in 2013-14. Whatever the case, that is substantially less than the £95.9 million figure that was in the spending review. Why do those figures not match up to what was originally proposed?

**Iain Scott:** I would have to go away and look at that to get an exact answer on that movement.

Since the spending review and through to the published figures, we have increased the amount of additional income that we get. If that is capital income, less of a transfer needs to be made. We are still incurring capital expenditure, but if we get additional income—I know that Highlands and Islands Enterprise is doing this—that may be offset the amount that needs to be transferred. However, the overall level of capital expenditure that we are looking at for next year is still in the region of £130 million to £155 million.

**The Convener:** Perhaps you could write to us with more detail on that. If it would be helpful, I can share with you afterwards the SPICe figures on the allocation. The amount looks substantially less than was originally proposed. Given that job creation is a key part of the Government's strategy, it is an important point.

**Lena Wilson:** I agree that it is an important point. I am concerned that you do not have figures that match our published figures, so I would like to clarify the position.

**Dennis Robertson (Aberdeenshire West) (SNP):** Good morning. I will keep my question short and—I hope—simple.

The business plan talks a lot about the creation of high-quality jobs. What is a high-quality job?

**Lena Wilson:** Good morning. Our definition is very general. What we mean is that we want jobs in Scotland that are as sustainable as possible. For example, if we think about how we attracted inward investment through the 1980s and into the 1990s, it was perhaps easier for some of those jobs to move away again. For inward investment, a high-value job is one with a salary that is 20 per cent above the Scottish average and rich in R and D. That is why we separate out total jobs and high-value jobs in relation to inward investment.

Scotland has moved on in business and call centre services. In relation to entry-level jobs at a call centre, for example, we now provide bilingual and trilingual services and technical support. We want to add value and move up the value chain as much as possible in every industry to ensure that the supply chain—from entry-level jobs all the way through—employs our college leavers and graduates. Those jobs also tend to be better paid and more sustainable. We want Scotland to be a high-quality location for every industry.

**Dennis Robertson:** Although there is focus on graduate-level entry, are you also looking at the equality agenda to ensure a better balance, especially for females going into jobs that are related to science, technology, engineering and mathematics? The balance, especially in relation to young women going into those areas, is fairly chronic.

10:15

**Lena Wilson:** You are absolutely right—it is fairly chronic. The issue is not just about getting STEM areas to be the first destination post-college or university; it is about getting our brightest and best generally, but particularly young women, into STEM areas where there are job opportunities. I think that I have talked to the committee about that before.

Just two weeks ago, I talked to the Scottish Further and Higher Education Funding Council board about that exact point. I am working with it to think about how we can attract women into those areas. I speak regularly at fora for women in engineering and women in technology. As I have said previously, companies are crying out to take on young women in Scotland who are studying engineering and information technology.

Steel Engineering, which has the renewable energy skills training academy, has its first young female welder. I think that she is about 18 or 19 now and she is a great role model who has been doing lots in colleges and schools. We do quite a lot to encourage that.

**Julian Taylor (Scottish Enterprise):** Every project that we appraise and approve requires an equality impact assessment. We try to understand deeply all the equality issues of all the projects, in line with legislative requirements and our strong promotional agenda.

All the sectors with which we work alongside our partners, as part of a team Scotland approach, have under development—or have implemented—sector skills plans. Those also address equality issues. There is a comprehensive approach to tackling the issue.

**Dennis Robertson:** Do you have a baseline figure for what you consider to be a highly paid job?

**Lena Wilson:** As I said, we regard a high-value job as one that pays 20 per cent above the Scottish average. Pay is dependent on sector, experience and skills, so we would not go into the detail of a minimum baseline.

**Dennis Robertson:** Thank you.

**The Convener:** We move on to the commercialisation of research and development, which some members are interested in.

**Marco Biagi (Edinburgh Central) (SNP):** The papers that we have for today's meeting show a list of targets that were met or exceeded. However, as we are a committee that is involved in scrutiny, we are interested in the one or two that have not been met. One was the target of between £65 million and £75 million of additional business R and D investment from Scottish Enterprise-

assisted projects, which had an outcome of only £56 million. Can you briefly explain why that target was not met?

**Lena Wilson:** Thank you for your question. The issue is a perennial one in Scotland. We perform less well than our competitors in Organisation for Economic Co-operation and Development rankings for business expenditure on R and D. However, gross domestic expenditure on R and D fares very well, through our universities. The trick is to get that university R and D expenditure commercialised into companies as much as possible.

We have done a lot of work this year. The £58 million was a 6 per cent increase on the previous year, and represents 10 per cent of total business expenditure on R and D in Scotland. Although this is a difficult area, we have seen traction and we are seeing an increase.

Inward investment is very important. The vast majority of R and D in Scotland comes from our larger firms and, in many cases, from inward-investing firms. It is very important to work with those firms and then, through the supply chain, get more investment in R and D.

Funding for that becomes very important, so we have oriented a lot of our funding towards encouraging innovation—we have seen a big uptake in that regard—and R and D. I would like that figure to increase significantly, and we have seen an increase in the previous year. We are making some traction in a difficult environment. Remember, all our R and D expenditure is match funded, normally at a ratio of 50:50.

**Marco Biagi:** There is a quite stark contrast in the Scottish economy between levels of business expenditure on R and D and higher education expenditure on R and D. We are top of the OECD rankings in one area and almost bottom in the other. What are the fundamental structural obstacles that you are trying to overcome?

**Lena Wilson:** When we encourage companies in general to be more internationally oriented, more ambitious and more outward-looking, they tend to invest more in innovation, research and development, graduates and leadership.

**Marco Biagi:** Are you talking about domestic companies?

**Lena Wilson:** Absolutely—and the domestic companies that become part of the supply chain for the large global firms also tend to invest more in R and D. We still have some way to go as far as our interface with businesses and universities is concerned; I have also been speaking to the Scottish funding council about making things as easy as possible in that respect. Graduates who come into business through certain programmes



tend to be more enlightened and to make links back to universities, and we need to focus our high-growth support much more on commercialising our great sciences. The approach is multifaceted and there is no silver bullet—if there were, we would be in a much better position—but fundamental to it all is the need to encourage ambition and internationalisation.

**Marco Biagi:** Is there any tension between the desire to promote internationalisation in domestic businesses and thereby boost R and D, and trying to encourage inward investment R and D?

**Lena Wilson:** Not at all. In fact, it is a completely virtuous cycle. The high-value inward investors who invest a great deal in R and D and whom we seek to bring into Scotland tend to demand the same from and encourage that sort of approach in their supply chain, which lifts the quality of everything. We need to encourage more businesses to be more ambitious and look to global markets, because the quality associated with being in a competitive global market is much higher than the quality in the domestic market. I would say that both things are highly compatible and that there is no tension at all between the two.

**Marco Biagi:** University commercialisation departments have told me about a real lack of access to finance for the early stages of commercialisation opportunities. In layman's terms, it is called the "Dragon's Den" step: the idea exists but there is no immediate access to equity finance. Do you share that analysis?

**Lena Wilson:** Any great idea for a product or service for a growing market and with a good leadership team behind it does not struggle for funding. What we need to do to is to help early-stage companies make their case better.

We work with a number of pre-revenue companies, many of which are university spin-outs; in fact, some of Scotland's recent successes have been university spin-outs, so there is no barrier in that respect. I absolutely agree that we have to make it easier for that to happen—we have to make the boundaries between the universities and the business world much more porous. However, we have seen some great examples of commercialising opportunities through, for example, the University of Strathclyde's work on renewable energy, the University of Edinburgh's work on informatics, and Edinburgh Napier University's work on turning whisky by-products into fuel.

**Julian Taylor:** We have also changed our focus. Compared with its competitors, Scotland performs really well in the first steps of spin-out, and where we used to work quite closely early on in the process we have changed our emphasis

and now work at the stage that Mr Biagi has highlighted.

You will see that our plan includes a target to support companies that will generate £5 million over five years. Although that is quite a high threshold for a company coming through the spin-out process, we are on track to hit our target of between 15 and 21 companies over three years. That has happened not only through our changing focus and coming in a little bit later in the process. Lena Wilson has mentioned people, and in the company-building aspects where we can bring expertise we are often helped by academics as well as by commercial expertise from other companies that we get, for example, by tapping into our globalscot network.

The process is quite sophisticated. Access to finance is important but it is one factor in a variety of factors.

**Marco Biagi:** Finally, expenditure on R and D in universities has been very high for a long time whereas business R and D expenditure has been very low. How has that disjunction been able to continue? How did we get such an imbalance in the research that is being carried out, and why have we not been able to bridge it?

**Lena Wilson:** All I can offer is opinion, not fact; I am definitely not the fount of all knowledge on this, but I have been in economic development for a long time.

I think that the changes in incentivising and funding universities to ensure that they contribute much more to economic development have been very helpful. In countries such as Finland and Norway, universities are expected to contribute much more to making an economic impact, so commercialisation is very important for them. I see a move in that direction in Scotland. I see very positive relationships with the funding council and with individual institutions. Learning for learning's sake and research for research's sake are very good things, but for economic development we want as much learning and research as possible to be oriented towards commercial aspects. Incentivising funding for that is a good thing, and I envisage such a change.

**The Convener:** Members have a great deal of interest in the issue. Three members have follow-up questions. We will start with Chic Brodie.

**Chic Brodie (South Scotland) (SNP):** Good morning, Ms Wilson.

I will follow on from Marco Biagi's question. Universities such as Stanford University in California, which I have visited, have a much higher awareness of entrepreneurship than some universities here. How can we get across to professors, lecturers and researchers that we want

to see not just papers on new products or services but such products or services going to market? How can we quickly change the mindset of those in the universities?

**Lena Wilson:** That is another very broad question. I will offer some opinions, based on my travels and experience.

Stanford University is a great example because there is a fantastic relationship between the University of Edinburgh and Stanford on voice recognition technology and software, and informatics. Edinburgh does a terrific job on spin-outs from the work on informatics and has one of the highest rates in Scotland. There are other fantastic examples, too.

I think that there has been a long-standing cultural issue around entrepreneurship, but it is perhaps not so much of a problem in Scotland now. However, the US has definitely grasped the entrepreneurial culture; its society values entrepreneurs and people who have tried and failed but tried again.

**Chic Brodie:** Is there a fear of failure here?

**Lena Wilson:** I think that that is changing in Scotland. For example, the Scottish Institute for Enterprise actively encourages university students to set up businesses. I gave some examples earlier, but we have lots of examples of academic spin-outs. The culture is changing. However, I want a culture in Scotland in which people keep trying and are internationally oriented, ambitious and positive, and where we talk about the world with our young people in primary schools. Such a cultural shift would contribute to creating the culture that Chic Brodie is talking about. I see some very good signs of that occurring.

**Chic Brodie:** Will I carry on with other questions, convener?

**The Convener:** If you want to change the subject, I will come back to you later.

**Chic Brodie:** I want to change the subject.

**The Convener:** I will come back to you. I will let Dennis Robertson in now, to be followed by Mike MacKenzie.

**Dennis Robertson:** Briefly, do you use the globalscot programme to support your research and development, Ms Wilson?

**Lena Wilson:** Globalscot is absolutely invaluable and helps us in so many ways. One of the fundamental things that globalscot members do is galvanise ambition in terms of encouraging people through masterclasses. Where we have globalscot members in very senior technology positions in companies in the energy sector, microelectronics or wherever, we pair them with Scottish companies, which leads to results. I

cannot give you a figure for that globalscot work, but it definitely plays a role. For example, the president of National Semiconductor is a very senior global Scot and did a great deal for a number of Scottish technology companies.

**Mike MacKenzie (Highlands and Islands) (SNP):** I read some interesting research recently that suggested that the length of time for an investment that the Japanese are prepared to consider is on average seven times more than that in the United Kingdom, and that the figure for the Germans is on average 12 times that in the UK. How much does the culture that we have here and the accompanying banking culture that demands immediate returns impact on our companies' ability to consider research and development? Do you feel that that is a factor?

10:30

**Lena Wilson:** That is an interesting observation. We are getting big-issue questions this morning.

Japan, which I know very well, certainly has a longer-term culture, and the same applies to the German environment, although I know it less well. That is why it is so important that in our business plan we hold our nerve for the long term. That is why we are sticking with the priorities. Continuing with that is one challenge of running an organisation with in-year budget management and a financial-year approach.

Julian Taylor might know whether any specific research has been done on that in Scotland.

**Julian Taylor:** There has been no research, but it is a fair point.

The challenge for us is to think about what we can do about the issue. We would focus on the leadership challenge of ensuring that companies have the ability to absorb—the jargon is “absorptive capacity”—to bring on board new technology and ideas. That might involve helping individual leaders in companies to think beyond the next quarter or next year. The work can therefore be done at company level. A second point is that we need to ensure that innovation is not just about technology. We must constantly use our radar to think about the short, medium and long term.

Many economies face the same issue. The German banking system, as well as taking a longer-term approach, is community based in its perspective, so there are many cultural issues, but there is no research to draw on that says that the issue is particularly Scottish. We can see the good examples from elsewhere. As a development agency, we need to focus on the leadership

characteristics that can help any company to think beyond the next quarter.

**Lena Wilson:** Short-termism is definitely an inhibitor of long-term growth.

**Mike MacKenzie:** It seems to me that the issue is not so much about companies' internal culture and more about influencing the banking and investment culture in Scotland and persuading banks to take a longer view. My experience suggests that many companies are willing to take a longer-term approach with more significant investment in research and development, but the bank manager says, "No—I am only interested in this year."

**Lena Wilson:** There is a bigger point about the role of Scottish Enterprise. Increasingly, our role has been not just about what we deliver but about working in the widest possible partnership and influencing others by bringing all of our knowledge and information to bear, opening it up and not being precious about anything.

Last year, we spent a huge amount of time working actively with the front-line people in banks to help them to understand how businesses grow, and working with companies to help them to make a better case. Over the past few years, there has been a big shift in Scottish Enterprise, not only in what we deliver but in how we work with and influence others. We can be a thought leader and commentator because of all the rich evidence that we have.

**The Convener:** Before we leave the issue of R and D and the commercialisation of research, I want to ask about the intermediary technology institutes. I remember being on this committee's predecessor in session 2 of the Parliament—a long time ago—when there was great excitement about the launch of the ITIs, which were going to fill the gap between the universities and the marketplace. In the *Sunday Herald* in March, I saw a report saying that, for the £231 million investment from public funds over 10 years, the return has been only £600,000. Do you accept those figures and, if so, what went wrong? That seems a huge investment of public funds to get very little coming out the other end.

**Lena Wilson:** You are right that the issue has played out in the newspapers. As we all know, we should not always believe absolutely everything that we read in a newspaper, and I am happy to provide further data.

The ITI initiative was bold. It is important that we do not stop thinking about doing bold things or taking chances. We did not anticipate that the economy would turn out the way that it has. However, the ITIs have had significant successes. Like my predecessor towards the end of his term, I was not happy about the ITIs because they were

becoming expensive institutions to run. We therefore took the decision to bring the initiative in-house, rationalise our costs, align the approach much more with the work of Scottish Enterprise and ensure that it is much leaner.

We have some good results in life sciences and from energy projects that are still running, but we have not yet seen everything follow through, so that £600,000 is just one part of an interim part of the programme. There are lessons to be learned and we came under a lot of flak for the decision to close down the institutes and bring the functions in-house to ensure that they are much more cost effective, but many of those programmes are still running. Also, as Julian Taylor said earlier, our whole approach is much more about commercialisation, so working with high-growth companies is now part of our overall approach.

**Iain Scott:** The £600,000 that has been mentioned was the absolute cash return that was generated at that point in time. Some of the investment went into some quite significant intellectual property. I have been involved in a number of projects since then that are looking at creating companies that could exploit that IP. If we were to take a huge cash return from those companies, they would not get going, but we will take a share or equity stake in some of them. As the companies develop and make some money out of that IP, we will get a much bigger return at a later stage. However, that could be five or 10 years away.

**The Convener:** Even given what you have said, it looks like a very low return compared with the investment that went in. Has Scottish Enterprise done any audit of the ITIs to see what lessons can be learned?

**Lena Wilson:** Yes, there have been quite a few evaluations, as that is part and parcel of everything that we do. Those evaluations are openly and readily available, so I would happily provide them to the committee.

**Iain Scott:** As I have said, the cash return from the companies will come in a bit later, but they may also provide a return to the economy through the increased gross domestic product that is generated when they are able to exploit that IP. That is similar to our grant schemes—we do not get money back on grant schemes, but they have a big impact on the economy—so we may see the same coming through from the expenditure on ITIs.

**Lena Wilson:** We have gone to great lengths to tell those who are interested—those who write the stories—that we are looking not necessarily for a cash return but for an economic impact.

**The Convener:** Have you modelled that for the ITIs?

**Lena Wilson:** Yes, we have indeed.

**The Convener:** Can you share that with us?

**Lena Wilson:** Yes, we can.

**The Convener:** That would be helpful. The next question is from Chic Brodie.

**Chic Brodie:** I want to start with a retraction. Some years ago, in another life, I wrote a highly critical letter about Scottish Enterprise under your predecessor—

**Lena Wilson:** Dear, dear.

**Chic Brodie:** I retract everything. I think that the agency has taken huge steps.

We have talked about what Scottish Enterprise does to create new businesses through knowledge transfer and R and D from the universities, but another leg to Scottish Enterprise's business is the business gateway. How are you interacting with the business gateway to find winners? Is the business gateway capable of finding the winners who can be moved through the leagues to the premier league?

**Lena Wilson:** The business gateway is a very important part of the landscape. I will not go into whether we should have a business gateway, as that decision has already been taken and we now need to ensure that everything that we have works well.

Since I last reported to you, we have seen some positive results. If I remember correctly, we previously had a rejection rate of 23 per cent for companies that the business gateway referred into our growth pipeline—I hate to use that jargon—which is the set of growth companies that we take on to be account managed. That rejection rate has now fallen to around 18 or 19 per cent. That tells me that there is a better understanding of what we are looking for in the business base and that we are working better. We want a rejection rate not of 19 per cent but of zero so that the process is absolutely seamless, but things are moving in the right direction. Recent indicators tell me that it is working better.

**Chic Brodie:** Does the business gateway engage in the country's overall economic development strategy, or is it too localised?

**Lena Wilson:** All economic development happens locally, as businesses are local things. That is why we have 12 offices all over the country to provide local services. The business gateway serves a very broad church that includes hundreds of thousands of companies, from sole traders to small businesses. A really important development is the web portal, which makes it easy for businesses to get information so that they do not need to be passed from pillar to post.

It is important that Scotland remains consistent in its offering. I would never want to go back to a fragmented approach and have such differentiation that businesses could get highly different things in different areas. We must guard against that. However, local delivery is not an issue in itself as long as it is consistent and high quality.

**Julian Taylor:** I have one more step to add to that. Recently, we started working with every single local authority on an area-by-area basis to review the entire business base, to get a mutual understanding of every company that wants to work with the public sector, to work out almost afresh what assets there are locally, and to determine who is best suited to the account-managed process that we have and who is best suited to the business gateway. We have a chance to go back to first principles with the local authorities to ensure that everything is working.

**Chic Brodie:** That is encouraging but, at the end of the day, we perhaps want a more structured approach from local authorities as well, with Scottish Enterprise saying, "Here are the areas that we are focusing on. Make sure there's a fit." I am not saying that that is the total priority, but they should consider whether things fit.

By the way, I think that the same applies to what is a rather anarchic part of the enterprise sector—social enterprise—but we can talk about that at length on some other day.

Looking at the business plan, last year's accounts and your account management plans, I can see that it is all great stuff, but does Scotland have the bandwidth to handle all of that?

**Lena Wilson:** I wish that I had that problem. I wish that we had so many fantastic growth companies battering down our doors that I had to be screaming for extra bandwidth.

On support, I think that I said to the committee before that we want to work with as many companies as we can to get them growing, internationalising, investing in R and D and creating jobs at all levels of the chain. We are limited only by the universe of companies that we have in Scotland that want to do those things.

We said last year that we want to increase the number of companies that we account manage by 20 per cent. We have seen a significant increase in the past year, which is great. Overall, we are seeing things moving in the right direction, but we are limited by the number of ambitious companies that we have—not by our bandwidth to be able to deal with them.

**Chic Brodie:** Are you limited by the number of credible business support people who are available in Scotland? We need to consider the big

challenge for business gateway companies and social enterprises—that is, the people who are fed into the pipeline. Access to finance is a problem, but when I talk to such people I hear that the big problem is knowing how to get their products and services to market. Do we have the tangential skills through business support people? I know that there are some very good people, but is there a limit on what you can do?

**Lena Wilson:** We increased our portfolio of account-managed companies by 80 last year and we absorbed that with no problem. We have let people go in the back office and put people on to the front line. Some 80 per cent of the staff who join Scottish Enterprise join us from the private sector. That is important for exactly the reason that you raise, which is that we need credible business support people. This has been a great time to recruit fantastic specialists in access to finance from banks and other parts of the economy, and we have made every attempt to do that.

I have never seen any evidence that a lack of quality business support advisers in Scotland is holding our economy or businesses back.

**Chic Brodie:** Does that apply to the expectation on the international export front? Again, the performance is highly commendable, but we have a long way to go to the journey's end. Well, we will never be at the journey's end, but we have a long way to go to the destination points.

Do we have the international expertise, the desire to become international and the general knowledge throughout the economy? Do the companies that you talk to fully understand what we are trying to do through export? It is great to have the whisky industry, which has clearly been imbued with export intelligence over the years, but do some of the newer companies have that international business support?

10:45

**Lena Wilson:** You will see from our results that there has been a huge increase in the number of companies that are accessing international markets. Behind that, there is an even larger increase in the number of companies that are expressing an interest. That tells me that companies are coming through the door, getting good help and getting excited.

As we all know, a company cannot go from zero to exporting within a year—it would be lucky if it could do so within three years, although some companies do that.

I can speak only for Scottish Enterprise; I do not run other parts of the support service in the economy. We have put a huge number of staff

through a professional qualification. Many of our staff are Institute of Export qualified—they have a very technical qualification that would normally be found only in the private sector. Indeed, one of our staff got the top award last year in the exams for the whole of the United Kingdom and has become a fellow of the institute.

We are professionalising our service, which enhances the credibility of our advisers when they are in front of companies. We must keep rolling that out, and I encourage others to ensure that their staff get such professional accreditation, so that companies feel well supported by very able people.

**Chic Brodie:** Julian Taylor probably knows what is coming. I have no doubt that you will be asked where we will get the employees that we require if there is to be economic growth in Scotland. Do we have the physical infrastructure that can support international activity?

**Lena Wilson:** Scotland has good physical infrastructure. I will help you, because I know that you want to lead me to talk about air route development—

**Chic Brodie:** There is a point about that. Westminster says that it will have an airports strategy in three years. We do not have one. Should we have one? Should you lead on that? I will leave Prestwick alone just now—I will see you outside about that. Should we have a meaningful infrastructure strategy, with particular reference to airports, to support international activity?

**Lena Wilson:** We need to ensure that all developments in infrastructure are aligned to our economic ambitions. For example, our ambition to increase exports by 50 per cent by 2017 means that many ducks have to be lined up—professional advice, the companies that we need to support, and infrastructure. I am in no doubt that the availability of air routes has a direct and positive effect on internationalisation and that if the routes are not there that can work against us. We have seen that in the context of the financial services sector.

We are very excited about the air route to Istanbul that is opening up. That is fantastic. We have an oil and gas mission to Turkey in September—I am going with it. Turkey is an interesting and vast market. The Turkish Airlines route to Istanbul means that our mission can get on a plane in Edinburgh and get off in Istanbul and be in its market. That is undoubtedly helpful.

You asked who should lead the strategy, which takes me back to the role of Scottish Enterprise. I do not run Transport Scotland and I am not a port or airport operator, but I absolutely think that we need to step up to our role of influencing and leading. Julian Taylor has played a significant part

in working with our partners in VisitScotland, Transport Scotland and so on, to ensure that we are doing everything that we can do.

**Julian Taylor:** I will elaborate on that. First, we have a strong sense of team among all the team Scotland players. Secondly, there is much greater clarity on our overall priorities.

To be honest, the issue is all about execution, and for me the proof of the pudding came at the world routes conference in Dubai earlier in the year, which is the dating process for airlines and airports. There was a stand that had “Scotland” written above it, which covered all Scotland’s airports and partners, working together to promote air connectivity. It was the only stand that represented a country. Competitors came up to the stand and said, “Wow. That is fantastic. You can say that everyone—your Government, its agencies and your airports—is behind the overall priorities.” That is a powerful message.

The Turkish Airlines route is a brilliant example of what can happen, in relation to not just links to Turkey but onward connectivity into Asia. We want many more direct routes and we have the ability to incentivise and support routes. There is certainly a huge step in the right direction.

**Chic Brodie:** My final question is for Iain Scott. I have been trying to trawl through your accounts. Last year, you underspent by £900,000. How did that happen?

**Iain Scott:** We have £300 million to spend, and we try to nail it right on the point on 31 March every year. Given that we are dealing with accruals and expenditure coming in from companies after the end of the year, it is quite difficult to do that—as we say, it is like landing a jumbo jet on a postage stamp. It was a marvellous success that we got down to an underspend of £900,000 last year.

**Chic Brodie:** To be fair, it was only 0.4 per cent of your annual spend.

**Iain Scott:** Absolutely.

**Chic Brodie:** However, we are trying these days to ensure that local authorities and other bodies spend the budgets that they have.

**Lena Wilson:** Yes, but I regard the outcome as a success. My job as an accountable officer is to ensure that we do not go a penny over budget, as that is an extremely serious offence. We have the most sophisticated in-year management, and we flex everything that we can. Under the current rules, my role is to turn in the most modest underspend that is practically possible. I would like it to be a penny, but it does not work like that. In running an organisation such as ours, an underspend of 0.4 per cent is testament to our effective management and it is a very big success.

**Julian Taylor:** One of the crosswinds, in trying to land that jumbo jet on the postage stamp, is our relationship with others. We very rarely fund anything solely by ourselves. If we are dealing with a company and the deal goes south at the last minute, that has an effect.

**Lena Wilson:** Sometimes we meet the budget just a week after the end of the financial year. However, last year’s outcome is still a result for me. I must not go a penny over budget, as I would get into serious trouble for that.

**Margaret McDougall (West Scotland) (Lab):** I will return to the discussion about exports and the international market. I attended a chamber of commerce event in Ayrshire last year, and companies were saying that they found it difficult to get information on how to export and how to enter the markets.

I wonder whether things have moved on, and whether there is an umbrella website that companies can use. They were saying that they can go to one site or another, but there is no one overarching website. Has that situation improved? Is it easier for companies to get involved in the export market?

**Lena Wilson:** Good morning, Margaret—we have not met before, and it is very nice to meet you. When was the event that you mention?

**Margaret McDougall:** It was last year, in Irvine.

**Lena Wilson:** Okay, so it was about a year ago.

**Margaret McDougall:** Yes, it might have been.

**Lena Wilson:** We have given a big push to our export explorer programme, which was previously the smart exporter programme. We now have advisers who go all over Scotland and speak to companies. Those are not necessarily companies that we account manage, although the bulk of them are. Any company that comes to the Scottish Enterprise website would, through Scottish Development International, be able to get a link straight to that programme.

I am constantly reminded that we can never do enough communicating and that the environment for businesses is generally quite confusing and bureaucratic. That is why a move to one single portal for all business services in Scotland is very important. Although one could say that that is not our responsibility, I have put Scottish Enterprise staff to work and lead on that with the Scottish Government.

We are nearly there, with regard to global best practice, in having one portal for all our businesses, but I understand how confusing it can be for someone who is running a small business. The chambers of commerce should know where to

go and should always be able to direct a company to the right information.

**David Torrance (Kirkcaldy) (SNP):** I want to ask on the same theme. There has been a lot of focus on the Asian markets, but how much focus has there been on Africa? Many countries there are experiencing bigger growth than countries in the rest of the world.

**Lena Wilson:** Indeed. For that reason, I put that big challenge to our team about a year and a half ago. In November last year, I was in Ghana. I had the privilege of working a great deal in Africa when I was with the World Bank, and I knew that the markets there were growing significantly.

In west Africa, we are going to put an office in Ghana. We already put someone on what we call a pioneer programme. We have been running those programmes all over the world to look at new markets: we put a member of staff somewhere for three or four months, and their job is to assess whether we should be in that market.

We had a pioneer in Ghana and one in South Africa. We have decided that we should not be in South Africa right now and that it is much more important for us to be in west Africa on the back of the oil and gas opportunities. From there, we could easily service Nigeria, which is a more difficult environment from Ghana.

We are also looking at east Africa. We sent an education mission to Morocco last week, and we are looking at other parts of north Africa, but there are huge opportunities in sub-Saharan Africa. We will have an office in Ghana as a starter, and we have a pioneer in Kenya in east Africa at present. Africa is very important—six of the 20 fastest-growing economies in the world are in Africa.

**The Convener:** Chic Brodie mentioned the issue of access to finance, which Rhoda Grant wants to pursue.

**Rhoda Grant (Highlands and Islands) (Lab):** What are you doing to help businesses to access finance?

**Lena Wilson:** That issue has formed a very large part of our activity over the past year.

As I think I mentioned, we have a financial readiness programme, which involves going to companies and helping them to make the case for finance. As I have told the committee previously, we found numerous examples of companies for which the answer had been no, but, when we helped them to make their case a bit better, on quite a number of occasions the answer turned out to be yes. We have been doing a lot on financial readiness. We have employed people from the financial services community to work as financial readiness specialists. Hundreds of companies that we had not previously worked with have gone

through that programme; I cannot recall the exact figure.

In addition, we have worked extremely hard with the banks. We have done a lot of work with Lloyds Banking Group, for example, and we have also done work with HSBC and the Royal Bank of Scotland. That has involved working with front-line staff to help them to understand the challenges that businesses face and how businesses grow.

Access to finance is still an issue. Companies are telling us that it is becoming more difficult again and that it is becoming more expensive when they come to renew their terms. There are definitely issues, but we have put a great deal of effort into access to finance in the past year.

**Julian Taylor:** I have some evidence to add on the companies that we work directly with—those that we have an account management relationship with. In any six-month period over the past few years, about 40 per cent of them have sought funding and well over 70 per cent of them have been successful in securing that funding.

If we work with a company at the top end of the pyramid that has clear growth potential—typically, one that has been innovating and internationalising—we can help it to present a case that will make it successful in securing funding from the banks and others. There is some positive news in what is a very challenging environment.

**Lena Wilson:** We also have our own funds, which Iain Scott might want to say something about.

**Iain Scott:** I was going to add some information on financial readiness. I think that our Scottish Investment Bank supported about 460 companies last year through the funds that it runs, 100 of which were provided with particularly intensive financial readiness support.

We have already seen a return on that, as 38 companies have received a total of about £13.5 million of funding. Some of those companies had previously been rejected by the banks. The support that they were given was fundamental to ensuring that the proposals that they put forward were seen to be robust and were accepted by the banks.

**Rhoda Grant:** What kind of things are you coming across when you help businesses that were turned down by their banks? You are giving them advice. Is a theme developing with regard to what happens when companies approach the banks by themselves? Are they simply not presenting properly?

**Lena Wilson:** I think that we are finding that they are not selling themselves well enough. When a business goes into a bank, it is marketing

and selling itself; it is trying to gain the bank's confidence in its ability to pull off its proposals. We have helped companies tell their story a bit better and provide more clarity on the markets that they are in.

We have also found that some technical financial skills have been missing. Smaller businesses have owner-managers who try to do everything: they try to be the human resources department as well as the finance department. We bring some technical skills to bear and help them to present their case better. In some cases, we have helped companies with some quite simple things, whereas in others more complex technical help has been required.

If our experience leads us to say that there is a gap in the market or that a particular skills offering needs to be put in place, we will certainly address the issue. If it leads us to think that we must upskill our account managers to a greater extent and look for more technical financial specialists in Scottish Enterprise, we will certainly do that. In essence, though, the issue has been to do with how companies present themselves, how they present their case and how they engender confidence. That is what financial institutions are looking for—they are looking to be confident in the person to whom they are lending.

11:00

**Iain Scott:** As Lena Wilson has said, the approach needs to be backed up with robust financial information; of course, I would say that in my position. I have to say that I was surprised when the new head of the Scottish Investment Bank Kerry Sharp gave feedback on that to the executive team. Again as Lena Wilson has said, we can bring in other support to help companies deliver.

**Rhoda Grant:** Only 70 per cent of the companies in which you see ability to grow will get bank funding. What alternative sources of finance are there? Are alternatives to banks missing?

**Lena Wilson:** As well as lending, there is venture capital funding—Scotland has a very active business angel community. We have our own funds through the Scottish Investment Bank and will continue to plough more into that if there are demand and uptake; indeed, we have seen greater uptake in our venture and co-investment funds. We need to remember that this is about co-investment, so we look to overseas and non-Scottish partners to bring capital into Scotland.

A number of global Scots have also started up. For example, the life sciences fund Rock Spring Ventures, which was started by a global Scot, is bringing tens of millions of pounds into Scotland with very small leverage. It is not just a matter of

banks lending money; an overdraft is one answer, but we need to look at the angel and VC markets and at co-investment. Some large overseas companies have also invested in smaller companies, which has given them deeper pockets that they can use to grow.

**Julian Taylor:** We leave no stone unturned in funding. At the other extreme, there are a number of modern and innovative ways of funding businesses, such as crowd-sourcing and peer-to-peer lending, that work for particular sectors—the creative industries, for example—and we are investigating those opportunities. We are looking at the complete spectrum with the banks in the middle and really innovative methods and equity financing at either end.

**Iain Scott:** The venture capital syndicates that Lena Wilson mentioned come from all over the world; 36 of our co-investment partners are based in Scotland, 29 are based elsewhere in the UK and 18 are internationally based. We are helping to bring those funds into Scotland to support companies. and that money has already been used in investments as part of our co-investment schemes.

**Chic Brodie:** When we went to Brussels and talked to the directorate for small businesses, we discovered that a €1.2 billion fund had been available for the past six years but we had not known about it because we are not yet—and I stress the phrase “not yet”—a member state. What relationship do you have with the European Commission and European funding routes?

Three weeks ago, I was in the City of London and found the place to be awash with cheap money. What relationships do you have down there and what investigations have you made of those funding routes?

**Lena Wilson:** I will separate out those questions. First of all, we have in Brussels a membership organisation called Scotland Europa that reports up through Julian Taylor at the moment—Julian is about to take up a post in Asia. I will ask him to say a little about that. Much of Scotland Europa's job is to identify potential funding sources and to get that message out not just through us but through its membership. There has been quite a lot of change in European Union funding—the horizon 2020 programme, for example, will open up a lot of opportunities. I will ask Julian also to say something about it.

You make a very important point about London, where I find I am spending more and more time. A while ago, we had a pioneer for six months in the City to identify new opportunities. I should also point out that the current Lord Mayor of London is a Scot. His job is to promote the financial services industry—indeed, he is a banker—and he has



been incredibly helpful in opening up wider contacts. We have a lot of global Scots in London and regularly run events there; our SDI London office is in Cannon Street in the City and we use it for those purposes. The rest-of-UK co-investors for which Iain Scott gave you the figures are based largely in London, so it is very important for us to be in London a great deal.

Julian Taylor will elaborate on Scotland Europa.

**Julian Taylor:** Scotland Europa has two major functions. One is to help Scotland collectively to secure European funding. Significant changes in European funding are taking place, and we have done fairly well in positioning the overall Scotland pitch.

**Chic Brodie:** So why did we not know about the €1.2 billion?

**Julian Taylor:** I will need to look into that. That might be a stone that was left unturned, but I would be surprised if we had not investigated the fund and considered eligibility. I will look into that and find out exactly what is available.

In addition, Scotland Europa is able to influence some of the funding sources. We need to be realistic about the degree of influence, but through the representation of Scotland Europa and by bringing some of our industrial partners into play, we feel that we have been able to influence European funding in favour of marine energy support, for example. It is a small but powerful lobby.

We will definitely look into the fund to which Chic Brodie referred.

**Mike MacKenzie:** On accessing finance, slight alarm bells started to ring when I read the comment in your corporate plan about companies not having financial literacy skills. From my business career, I remember the days when people went to see their bank manager with a business plan on one sheet of A4. That grew to 50 pages, to 100 pages and then to something the size of a telephone directory. Perhaps part of the reason for the credit crunch was that we did not spot the real risks that were hidden in the complexity. I am concerned that, these days, what is taken to be financial literacy is just lots of complexity. Earlier, we discussed how to foster entrepreneurship in Scotland. I have met some successful entrepreneurs over the years, and they seem to be aligned with Einstein in that he talked about reducing everything to its simplest form. Do you worry that the trend of increasing complexity under the guise of financial literacy is counterproductive?

**Lena Wilson:** I have not seen any evidence to correlate complexity with falling standards in financial literacy. As Iain Scott said, it is only

through our deep work on access to finance and with the financial readiness specialists that we seem to have uncovered the issue. It is important that we have done so, and we will definitely do something about it. We need to understand the issue a bit more deeply. However, I would say that reducing burden, complexity and bureaucracy for businesses is absolutely fundamental. Many businesses say that wading their way through lots of stuff, whether from their bank or someone else, is difficult and challenging.

**Mike MacKenzie:** From speaking to many businesses, it seems to me that, increasingly, the banks' response post credit crunch is to ask for more and more information when they are doing due diligence. Much of it seems to be red-herring information that is not at all critical to the success of a project.

**Lena Wilson:** Part of the work that we have been doing with the banks—I explained it earlier, so I will not repeat it—is on understanding what information is critical and required, and on asking the right questions of companies. However, when times were good, some businesses were supported that perhaps should not have been, and they perhaps did not have to prove as much as they would now. It is important to ensure that companies are prudent, that they give the right information and that they have sound business plans. The issue is how to do that in the least burdensome way possible. I agree with you on that.

**Mike MacKenzie:** I have a number of other questions, convener. Is it appropriate for me to ask them now?

**The Convener:** Yes, please—although I hope that the number is not too large.

**Mike MacKenzie:** Interestingly, the previous answer leads neatly to my next question. I notice in the corporate plan what seems to be a new focus on construction as an industry that has growth potential. I absolutely agree with that, but surely the big limiting factor is the industry's ability to get finance for public and private sector construction projects.

**Lena Wilson:** That is a good point; our executive team discussed that very issue just yesterday. We want to step in and face up to the fact that we all say that the Scottish economy is doing really well, if we take out construction. That is not good enough, because there are a lot of opportunities, a lot of great firms and a lot of people working in construction.

Finance and banks lending for property are certainly an issue. There was a recent announcement of an RBS fund of over £100 million for tourism investment, which is very welcome. We work on opportunities in

construction with our industry advisory group. There are tremendous opportunities around internationalisation, more investment in R and D, low carbon, better construction technologies, aligning more with forestry industries, and looking at architecture and design as an internationalised service in Scotland. I think that there is an opportunity to make a step change in how we look at the construction sector and to support it to be more innovative, to invest more in R and D, to link more with a low-carbon agenda and new materials, and to look at the role of architecture and design in Scotland. I think that there is more that we can do, and that if we saw more international projects, they would more easily be funded compared with the traditional route, in which we had a lot of exposure for the banks in Scotland.

**Mike MacKenzie:** I agree that there are huge opportunities. I think that in the slightly longer term, construction will perform. It has fallen off very much, so I think that we will see some quite sharp growth when the general economy picks up.

I think that Scottish Enterprise is doing a terrific job, but I am slightly disappointed and a wee bit puzzled by the failure to meet renewables targets. Can you explain that?

**Lena Wilson:** Again, some of it comes back to the understandable desire to achieve in-year, and in a 12-month period. Our pipeline for renewables is strong. We have had announcements from Gamesa, Mitsubishi, Samsung and the like, and we are actively working with those organisations on their plans. There are undoubtedly issues around electricity market reform, and there are policy issues that we can influence and which the Scottish Government is influencing that are affecting decisions. We have all been reading about that and it is not news to any of us.

There are issues about timescales and contracts. We are seeing some of the timescales being pushed out a little, which affects in-year target delivery. However, I am as confident as I can be about renewables, given everything that I know and all the relationships that we have; I have personally gone to the boards of organisations. We have a pipeline that will bear fruit, albeit that some of the original anticipated timescales might be pushed out slightly.

**Mike MacKenzie:** That is of general interest to the committee, because we deal with energy as well as the economy. We have had a number of discussions about EMR. How strong a factor do you think it has been? Are there other factors impeding our ability to realise opportunities as soon as we might?

**Lena Wilson:** Companies want two things as well as a supply chain: customer orders and a

policy environment that supports what they are trying to invest in. To that extent, EMR is important to companies, as is our working with them to ensure that they have good order books and customers. We then come in on the back of that to make the infrastructure as easy as possible. On the supply chain, we are working with 600 companies. The renewables skills academies and engineering are also important for them. However, what they need most is a favourable policy environment and an order book.

**The Convener:** Have you finished, Mr MacKenzie?

**Mike MacKenzie:** I have more questions.

**The Convener:** Two members want to come in with supplementaries, and I am conscious of the time and that some members have not asked any questions yet. I will come back to you, Mike, if there is time.

**Margaret McDougall:** I have a supplementary question on CO<sub>2</sub>. I note that Scottish Enterprise has exceeded its targets on that. What interventions are you using and could others do the same?

11:15

**Lena Wilson:** We are very committed in that regard. If you were to come into a Scottish Enterprise office, you would be quite likely to see someone with a headset on, on a Skype call—we have a more sophisticated version of it, in fact—with people anywhere in the world. We had 12 people on one call the other week, I believe, from throughout Asia, instead of people needing to go and visit one another.

Our travel policy encourages use of public transport and we have invested in technology; we have actively tried to lead in that regard. We have a cycle-to-work scheme, to which we are very committed and, on healthy working lives, we are encouraging people to walk more. There are myriad issues in that regard. The technology for dispersed offices has also been very important to us.

**Julian Taylor:** Was the question more around the companies with which we work?

**Margaret McDougall:** I meant those, as well.

**Julian Taylor:** There is a really significant component in respect of the companies with which we work. That ranges from out-and-out lean production techniques, with complete savings, particularly through the manufacturing advisory service work that we do, to helping companies that have low-carbon products to explore new markets, especially in the built environment, and there are specialist companies such as Applied Sweepers

and Allied Vehicles Ltd. We have many different ways of working with many different companies to help them. It is a genuine win-win: it brings cost reduction and CO<sub>2</sub> reduction.

**Lena Wilson:** We have to lead by example wherever we can.

**David Torrance:** We have had great success with offshore wind; Samsung has moved into the Fife energy park in the area that I represent. How much assistance have we given to wave and tidal companies to go into manufacturing and production in Scotland?

**Lena Wilson:** We have given a great deal of assistance. We own Fife energy park, which to me is a very important asset.

The wave and tidal opportunities are huge. They are longer term—the technology is in the early stages of development, which means that it is more difficult to get private sector financing. Scottish Enterprise, through its co-investment funds, has come in and invested in two of our leading companies. It has also co-invested with big industrial conglomerates and venture capitalists. We need to take an approach that reflects the very early-stage nature of the technology.

I have told the committee before that our ambition is to have the leading device—a Scottish device—but we do not know which technology it is going to be yet. As regards the European Marine Energy Centre—EMEC—in Orkney, it is important that people can go there and test the technology by deploying it in some of the harshest winters in the world. If equipment gets through a winter in Orkney, it will survive anywhere. It is important that we do everything we can to get investors into it and to get that technology commercialised. We are taking a very active interest in that, and we are putting serious amounts of money into it.

**David Torrance:** Another company at the Fife energy park, Flumill Ltd, is involved in tidal power. It has great problems in getting to the test centres to test its devices. It has had to test them in Norway, because it has not been able to get any room to fit up at EMEC.

**Lena Wilson:** That is a capacity issue.

**David Torrance:** Yes, it is.

**Lena Wilson:** I am going up to Orkney in the coming months, and I will have a good look at that for myself. I will happily take up that matter with you afterwards. I suppose that it is a tremendous sign of success if we have a test centre that is quickly getting filled, but we obviously do not want any Scottish company to be unable to get access to test its devices.

**Alison Johnstone (Lothian) (Green):** Is there a priority between domestic and inward investment? If so, where does it lie? Is the priority to grow new or existing Scottish businesses or is it to continue to attract inward investment? Do you have any evidence on whether it is better to increase the proportion of jobs coming from one or other of those two sources?

**Lena Wilson:** You raise a lot of questions, and I will try to give you a general response. I am sure that my colleagues will come in but, if I do not pick anything up, please come back to me. The vast majority of our expenditure goes on indigenous Scottish firms. Is it two thirds?

**Julian Taylor:** Eighty per cent of the account-managed companies that we work with have Scottish owners.

**Lena Wilson:** Those are Scottish companies. There is a myth that all the money goes to foreign investors, and that it has been that way for 20 years. However, that is not the case.

Furthermore, 80 per cent of our foreign direct investment is reinvestment by companies that are here. I would argue that many of those companies become fantastic Scottish companies, such that we think of them as Scottish companies once they are here. The amount of reinvestment by companies that are very happy in Scotland and which fight for other mobile projects is incredibly high. That is why Scotland has more or less topped the jobs league for inward investment in the UK over the past few years.

I do not think that there is any evidence that one type of job is better than another. Is the job sustainable? Will it be here in the longer term? To return to Dennis Robertson's point about high-value jobs, they tend to be anchored more in the economy, and they are much more difficult to take away.

Inward investment is very important, because of the supply chain. It opens up opportunities for tens of Scottish companies to supply services and products to inward investors. High-quality inward investment is fundamental to Scotland, as is growing our own. We need to grow Scottish companies to become big foreign investors elsewhere in the world as globalised companies. Both those things are vital—one is not better than the other.

**Alison Johnstone:** Do you apply any criteria to companies that receive regional selective assistance grants, for example? On the subject of high-value jobs, are companies that use zero-hours contracts receiving funding? Amazon has been in the press a lot recently as being one of the multinationals with aggressive tax avoidance policies. When you look into awarding contracts,

do you consider whether the jobs really will be high value? Do you consider other criteria?

**Lena Wilson:** The criteria for RSA are very robust, because it is a European scheme. Decisions are normally based on a couple of things: the amount of investment that the company says that it will make and the number of jobs that it will create. Payments are normally made in relation to milestones or trigger points, and they are retrospective. Before grants are awarded, it has to be shown that the company has done what it said that it would do. There is normally a time-bound clause for a period after the grant has been awarded so that, if the company reduces in that time, the grant is clawed back. That answers the first question about criteria. One thing that does not come under the criteria for RSA is the new issue that we have in this country with zero-hours contracts.

As for economic impact, we consider the number of jobs. As I have said, inward investment is viewed in two ways—in relation to high-value jobs and the total number of jobs. High-value jobs tend to be about one third of the total number of jobs that are created from inward investment. If a company such as Teleperformance comes into Glasgow with a call centre, for instance, it provides terrific entry-level jobs for graduates, school leavers and so on. We need a whole spectrum of jobs, from entry level through to high value.

We do not currently have criteria on zero-hours contracts. As far as I am concerned, as chief executive of the economic development agency, taxation policy is a matter for Government. As for whether we would want every company in Scotland to comply—we all would—I do not set the policy for taxation, and nor should I.

**Alison Johnstone:** Access to finance is a very big issue. With colleagues here, I was on a panel with the Federation of Small Businesses last week, and I heard that access to funding is a continuing battle for many small local traders. Is there a vision for the future role of the Scottish Investment Bank? Should it become independent and be able to issue bonds, as is the case in Germany, for example? Should we adopt a different model, which might be more helpful for businesses that are still struggling?

You said that this is a great time to recruit staff with the expertise to ensure that funds move to those who need them most, but the struggle is ongoing. I wonder whether the Investment Bank can play a part.

**Lena Wilson:** Setting the policy direction is more a matter for Government. The Scottish Investment Bank is fundamental in leveraging additional funding into Scotland.

As I said, for every £1 that we invest in the Scottish Investment Bank, our co-investment partners invest £2. We put a great deal of our budget into the body, so it is very important. It is not a bank; it is an investment arm. It helps companies to access capital that will help them to grow. There might be other plans for how that develops, but its job is a fundamental and integral part of the economic development agency. It is doing a good job.

**The Convener:** Marco Biagi has a supplementary, which will probably need to be the last question.

**Marco Biagi:** The committee recently completed an inquiry into underemployment, which looked at underemployment in terms of hours and skills. I think that you have twice referred to entry-level call centre positions and graduates in the same sentence. Will you clarify what you meant?

**Lena Wilson:** It is no surprise to anybody that graduates are underemployed. Graduates are going into lower-level jobs when we might think that they have been trained for higher-level jobs—we all know that that is happening. I did not intend to say that only graduates can work in call centres. We have graduates who work in the renewables and food and drink industries. We all have children; we all have families. We know that graduates are not all getting the jobs that we want them to get.

**Marco Biagi:** I take that as an expression of dissatisfaction with the situation.

**Lena Wilson:** I am stating a fact. We all want our young people who are coming out of our colleges and universities to have a destination that helps their ambitions and careers. My first job after I graduated was not glamorous in any way, shape or form. We all have to start somewhere; we all have to work our way up. It is not a bad thing that we have to work hard.

**The Convener:** Two members have caught my eye. If their questions are minuscule, I will let them both in.

**Chic Brodie:** I have been looking at your accounts for last year. Scottish Enterprise has accumulated £115 million between shares and loans. It is surprising that one loan is to a local authority. Given the conversation about bandwidth, how do you play your part in the governance of the companies involved?

**Lena Wilson:** Do you mean the governance of subsidiaries generally or our investee companies?

**Chic Brodie:** Investee companies.

**Lena Wilson:** We do that in many ways. We are often on the boards of those companies.

**Chic Brodie:** But there are 571 of them and that does not include—

**Lena Wilson:** We have a monitoring team, we follow up issues and we provide aftercare. As with any financial organisation, we are part of the monitoring and governance arrangements, so we have a team that deals with that.

I am the accountable officer. Ultimately, all that rests on my shoulders, so we want to ensure that governance is done properly.

**Iain Scott:** In all such cases we have co-invested alongside other partners. We take the same stake as or a smaller percentage stake than the co-investment partner. We are a small part of the governance of those companies. We probably take a maximum stake of between 5 and 10 per cent in the companies.

**Chic Brodie:** Can you have more than a 20 per cent stake?

**Lena Wilson:** Yes. When there is greater investment, we nominate a non-executive director to look after our interests on the board. That is relative to the exposure.

**Chic Brodie:** I am surprised that you loaned £6 million to the City of Edinburgh Council, but that is by the by. We can check that later.

**Lena Wilson:** We can explain that to you afterwards, and you might not be so surprised or disappointed.

**Margaret McDougall:** You have met or exceeded many of the target figures. I do not mean this as a criticism, but are the targets ambitious enough?

**Lena Wilson:** In response to that question, I congratulate the staff at Scottish Enterprise. Last year we had our lowest level of resources, but it was our highest-performing year. That is our job. We are asking businesses and everybody out there to tighten their belts and to work harder. Our board is the ultimate arbiter of our targets and it errs on the side of targets that are challenging and stretching, as they should be. Sometimes I worry more about a target that is too stretching, in case we do not meet it.

I do not take your question as a criticism. I am smiling because you are damned if you do and damned if you don't. We would be criticised if we did not meet the targets, and people think that the targets are too slack if we meet or exceed them. They are what they are. We just deliver for the Scottish economy.

**The Convener:** With impeccable timing, that brings us to the end of our session. Thank you very much to Lena Wilson, Iain Scott and Julian Taylor for coming along. You said that you would

follow up one or two issues in writing and it would help if you came back to us on those matters.

**Lena Wilson:** That would be our pleasure.

11:29

*Meeting suspended.*

11:34

*On resuming—*

## Regulatory Reform (Scotland) Bill

**The Convener:** Agenda item 3 concerns the Regulatory Reform (Scotland) Bill, on which the committee undertook a number of fact-finding meetings yesterday. We broke into three groups and it would be useful to get reports from those groups on the key points that they discussed. I remind members to bear it in mind that the meetings were held in private and that people participated in them on the basis that their contributions would be kept private, so names will not be revealed.

I ask Alison Johnstone to report on what the first group found.

**Alison Johnstone:** Dennis Robertson and I met an officer with a great deal of experience of environmental health and trading standards, who was absolutely fascinating. We could have talked to him for twice as long.

Among the main points that came up was the inclusion of the economic duty in the bill. He did not believe that there was any point in that. He believed that it would create a conflict with the responsibility to protect public health and safety. He agreed that the national standards could create clear expectations but said that guidance on the operation of such standards would have to take account of local circumstances.

I will briefly go through the main points. The officer believed that the economic duty should be removed from the bill, because its purpose was unclear and it would create a conflict. He believed that other approaches, such as the existing enforcement concordat, seemed to serve the same purpose. He also questioned whether there is a shared understanding or a clear definition of what is meant by “sustainable economic growth”. He believed that existing professional standards apply and are promoted well by relevant professional bodies, that provisions already exist that make it the regulator’s role to be a facilitator who creates a level playing field and that effective regulation helps legitimate business to prosper.

The officer gave examples. He said that a restaurant would rarely be closed for any longer than was absolutely necessary and that officers understand that people’s livelihoods are at stake. They try to improve matters and sort things out as quickly as possible, so they contribute to economic growth.

He gave the example of a business with a significant share in a large city’s leisure sector diluting or short-measuring alcoholic beverages across all outlets, which would have an impact on

public assurance of the quality of what they purchase and on other businesses’ ability to compete on an equal basis. Given the impact of that business’s market share, how would the economic duty balance against public safety considerations?

He thought that there would be value in having a national standard and that it was important that all who are involved across the country in regulatory work understand what is expected of them. There was concern about the level at which standards would be set. Large cities such as Glasgow, Edinburgh and Aberdeen have high standards, which he would not want to be reduced.

He had concerns about whether standards would reflect practical experience of effective regulation in different areas. He said that an inspector in Glasgow might see four or five burger vans in an afternoon, whereas the number could be one or two a year in Clackmannanshire. Some people would have great experience and be able to operate more efficiently, which might have an impact on the standard. He was concerned that what might be appropriate in Glasgow would not be appropriate in the Highlands.

He commented quite strongly on the need for a holistic approach that combines food hygiene and health and safety inspections, as in larger urban areas. He gave an example of where that does not happen. He told us of a quite harrowing incident in which someone had ended up with their foot in a frying pan.

**Mike MacKenzie:** Do you mean a deep-fat fryer?

**Alison Johnstone:** Yes—a deep-fat fryer. Someone who was attempting to clean a kitchen oven had found himself standing on top of an oven and had had a dreadful accident.

**Rhoda Grant:** Oh no!

**Alison Johnstone:** That person had been trying to comply with one set of regulations and had failed to comply with another.

The officer believed that environmental health officers would naturally be able to have a more direct relationship with the businesses that they inspect and to demonstrate more clearly the benefits of compliance to those whom they deal with. When enforcement action is required, those officers are more likely to have a good relationship with their local procurator fiscal, through which appropriate measures can be imposed. In a larger area, those relationships might be less likely to exist, but there is more scope to combine inspections for different parts of the licensing regime, which could aid compliance and operation.

Finally, the officer was surprised that street-trader licensing, which is a relatively small area of

regulation, is seen as being of such importance. However, he noted that it is the area in which environmental health officers are most involved. He has a concern, which I think has been mentioned to the committee previously, that the proposals might lead to street traders shopping around so that they are inspected by authorities that are viewed as having less stringent standards. For example, a small local authority that employs four or five environmental health officers might cover an area that is geographically convenient as a winter base for people who operate travelling shows. At present, the major urban centres have inspection regimes that have higher standards and more officers who are dedicated to particular areas for inspection and compliance. Under the bill, one small authority could be responsible for licensing 20 per cent of such traders in Scotland.

The officer felt that appropriate resourcing is needed to deliver effective regulation. The current funding model works on a per capita or head-count basis, but that might need to be rebalanced to take into account the burden of work—he pointed to the fact that Edinburgh has a phenomenally high number of fast-food restaurants and so on.

Dennis Robertson might want to make other points. We had an interesting and helpful meeting.

**Dennis Robertson:** I emphasise only that there was some concern about the potential for dilution of standards, which the officer did not want. We should aim to bring other authorities up to the level of, for example, the City of Edinburgh Council, Glasgow City Council or Aberdeen City Council on good practice.

**The Convener:** I ask Margaret McDougall to report back on her group.

**Margaret McDougall:** We met two planning officers, who were very knowledgeable about what they do. In summary, they felt that local authorities are too diverse for national standards to be applied to them. For example, Edinburgh has lots of listed buildings, whereas Glasgow has more industrial issues and dispersed problems. The planning officers were very clear that they have sustainable economic growth as a key objective.

On planning fees, there were many concerns about how satisfactory performance might be measured, given that the focus will likely be on timescales rather than on good partnership working and decision making. How will we measure the quality of planning decisions? It seems that there is no clear way of measuring that.

A concern was expressed that, whereas a local development plan can reflect the diversity of a local authority area, imposing national standards could mean that local issues were not tackled as

effectively. In effect, local authority planners would be removed from the process and planning would be delivered by the Scottish Government.

On the economic duty, planners recognise that their job is to encourage economic regeneration and growth, as I said. However, planners serve the local authority population, and communities need to have a say in the process, including times when a development is not palatable. In addition, when there are time constraints, planners might still need to consult and rely on information from other organisations, such as Scottish Natural Heritage, but other organisations might not always conform to the timescales.

Partnership working with other regulators is good, but planners have expertise in heritage or the environment rather than in economic growth, although that may be a higher priority now within the context of the national planning framework. Basically, that is what the planning officers felt.

On sustainable economic growth, the planning officers mentioned several times how performance will be measured and how it will be reflected accurately. Will that be a tick-box exercise? The priority could be meeting timescales rather than the quality of the planning application and how a decision comes about, particularly in relation to larger developments.

11:45

On planning fees and the sanctions that have been mentioned, there was concern about what will happen if a planning authority is not performing and its fees are reduced. If the fees do not go into the larger pool of the local authority, how will the planning authority improve the service that it provides, given that its funds will be reduced?

We heard that the in-house services that local authorities provide are not consistent. Large local authorities have ecology and heritage experts in house, but smaller ones have to get consultants in to do that work, which takes time.

The planning officers were not at all keen on the financial sanctions. They believe that the sanctions might result in local authorities prioritising and targeting funding in areas that will impact on the agreed planning targets rather than focusing on providing a good overall service. We heard that making good decisions is as important as efficiency and that the bill is too focused on efficiency.

I presume that all committee members will get a copy of the notes from the meeting, so I will not go through them all. The view was that the section of the bill on planning fees should be removed as it is unlikely that it will be possible to implement it

effectively, given the diverse economies, climates and priorities of communities. Local authorities need to be able to respond to their development plans, which might differ from the Scottish Government's view of national consistency or local authority performance.

I will leave it at that. Chic Brodie might well want to add something.

**The Convener:** Does Chic Brodie want to add anything?

**Chic Brodie:** No. Planning fees and localism were the two main concerns.

**The Convener:** I will report back briefly from the group that I was in. Mike MacKenzie, Rhoda Grant and I met a cross-section of the business community, ranging from quite substantial house builders down to very small microbusinesses. We had a broad-ranging discussion that inevitably went on to subjects that were not really relevant to the bill, but nevertheless it was interesting and it was good that they engaged.

The themes that came out of the discussion were pretty consistent. On national standards, there was concern about local authorities inconsistently applying national policies and regulations. The businesses would prefer more consistency. An example was given of somebody running a taxi firm. It seems that different local authorities apply different standards, and people who operate in different areas have to comply with the different standards, which adds to costs.

Perhaps unsurprisingly, there was general support for the economic duty, which the businesses feel would be helpful. Crucially, they want regulators, including local authorities, to be seen as facilitators and enablers who are there to assist people in business rather than just to put obstacles in their way, which is how they are perceived at present. Probably the strongest message that came out from the businesses was that they want a change of culture among regulators and local authorities, which should be much more business friendly and should try to help them through regulation rather than stand in their way.

The point was made that planning fees are a small part of the total cost of a planning application. We heard that the changes might not make a huge difference to other planning issues.

We were given quite a few specific examples of legislation in which the businesses believe that there is duplication. One concerns building standards and the interplay with the requirement on local authorities to require carbon reductions under the Climate Change (Scotland) Act 2009. Some local authorities are using that to enhance building standards, in effect, which is making it

more difficult for house builders to get on and do what they want.

I do not think that the messages from businesses surprised any of us who were there. They were focused on making it easier to do business and on the need for regulators to be more helpful, rather than just to strictly apply the rules.

Do Mike MacKenzie and Rhoda Grant want to add anything?

**Mike MacKenzie:** A couple of people in the group were from very small businesses. There is a difference between bigger businesses, which can engage more effectively with regulators and whose primary concerns tend to focus on technical issues that relate to the efficiency of regulation, and smaller businesses, which are bewildered by the complexity and cannot negotiate their way through what can be a complex minefield.

**Rhoda Grant:** I echo that. Another thing that came across clearly was that legislation and regulation really matter. The businesses said that there is no legislation on things such as surface water and who is responsible for it, but carbon reduction is overlegislated, with different pieces of legislation doing the same thing or even fighting against each other.

There are also problems with organisations making legislation come to life. Some departments have no view of what other departments are doing, so people get different messages from a single organisation. As Mike MacKenzie said, there is confusion because people are not speaking to each other and there is no understanding of what is going on.

**The Convener:** We will circulate the notes from the various meetings to all members so that they can see what the people at the other meetings said. We will bear all the issues in mind in the formal witness sessions as we scrutinise the bill.

**Chic Brodie:** Last week, I went to the David Hume Institute presentation on competition, at which regulation came up. I know that we will address competition after September 2014, but it is clear that in the bill there is an overtone of competition regulation and how that applies.

**The Convener:** Okay. Thank you. We now move into private session.

11:52

*Meeting continued in private until 12:13.*



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

---

Available in e-format only. Printed Scottish Parliament documentation is published in Edinburgh by APS Group Scotland.

All documents are available on  
the Scottish Parliament website at:

[www.scottish.parliament.uk](http://www.scottish.parliament.uk)

For details of documents available to  
order in hard copy format, please contact:  
APS Scottish Parliament Publications on 0131 629 9941.

For information on the Scottish Parliament contact  
Public Information on:

Telephone: 0131 348 5000  
Textphone: 0800 092 7100  
Email: [sp.info@scottish.parliament.uk](mailto:sp.info@scottish.parliament.uk)

e-format first available  
ISBN 978-1-78351-109-9

Revised e-format available  
ISBN 978-1-78351-123-5

---

Printed in Scotland by APS Group Scotland

---