



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 15 May 2013



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**ECONOMY, ENERGY AND TOURISM COMMITTEE**  
**15<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:**

Forbes Duthie (Highlands and Islands Enterprise)

Alex Paterson (Highlands and Islands Enterprise)

**CLERK TO THE COMMITTEE**

Jane Williams

**LOCATION**

Committee Room 4



# Scottish Parliament

## Economy, Energy and Tourism Committee

*Wednesday 15 May 2013*

*[The Convener opened the meeting at 10:34]*

### Highlands and Islands Enterprise

**The Convener (Murdo Fraser):** Welcome to the 15th meeting in 2013 of the Economy, Energy and Tourism Committee. I remind all those present to turn off mobile phones and electronic devices, or at least to put them to silent mode so that they do not interfere with the sound equipment. We have apologies from Rhoda Grant and Alison Johnstone.

Agenda item 1 is evidence from Highlands and Islands Enterprise on its annual accounts for 2011-12 and spending plans. I am pleased to welcome from HIE Alex Paterson, chief executive, and Forbes Duthie, director of finance and corporate services.

Before we move to questions, I invite Mr Paterson to make introductory comments.

**Alex Paterson (Highlands and Islands Enterprise):** Thank you, convener, and good morning. It is good to be back again—usually we make an annual visit to the committee, but this is our second appearance this year.

**The Convener:** That is because we like you so much.

**Alex Paterson:** Thank you. If we come in October, that is six months on from the end of the previous year and six months before the start of the next year, so it is helpful for us to come to the committee now.

I will touch on three things. First, I will remind the committee of the framework within which we operate across the Highlands and Islands. Secondly, I will comment on the year that has just ended. Thirdly, I will comment on the year that has just started and on how we propose to use over the coming year the budget that is set out in our submission.

We clearly operate within the context of the Government's economic strategy. For the past couple of years we have been consistent in having four clear priorities that we deliver across the Highlands and Islands—from Shetland in the north to Argyll in the south, or anywhere in between, we do four things. That will continue to be the case in the year that has just started. Such consistency and continuity are important.

Our four clear priorities are as follows. First, we support businesses and social enterprises to shape and realise their growth plans. Secondly, we work to strengthen our communities and fragile areas. Thirdly, we look to develop our growth sectors, particularly those with distinctive regional opportunities. Fourthly, we work to create the conditions for a competitive and low-carbon region.

We also have a number of aspirations for what we hope the Highlands and Islands will look like in 2020. We are therefore taking forward a number of projects that are not just for the here and now but for which we have in mind the longer-term view to 2020. For example, we want the Highlands and Islands to be a digital region and to continue to be an international centre for marine renewables; we also want more growth businesses to operate from the region. Our longer-term ambitions are in our submission, so I will not repeat them all.

Our operating plan sets out our priorities, our 2020 aspirations and our key performance indicators. We have been operating to that plan in the last couple of years and will continue to do so in the year that has just started.

My second point is about the year that has just ended, which was a good year for the organisation. I think that we invested our budget wisely and, importantly, in such a way as to try to ensure that we generate impact and outcomes for the region. For example, the businesses that we supported over the course of the past year will generate turnover of more than £90 million, £48 million of which will be in export markets. That focus on internationalisation, which we have had for a couple of years and continue to have, is producing some good results.

We have contributed towards the creation and retention of more than 800 jobs—the figure is an understatement because more jobs have been created both through regional selective assistance coming into company investments in the region and through companies themselves expanding beyond the support that we give them. More communities are developing and deriving community benefit from our support, and turnover of £2.3 million in the social economy is forecast from our work in the past year.

Our account-managed portfolio has grown to just under 650 organisations, including businesses and social enterprises. Account management remains at the heart of what we do, although we use a range of tools to help businesses. We also have 48 account-managed communities, which sit at the heart of our strengthening communities activities.

We have had good growth from many of our indigenous companies, and they have good

prospects, but I particularly highlight the number of international companies that have chosen in the year just past either to locate in the Highlands and Islands or to expand their operations in the region.

Back in June last year, Johnson & Johnson decided that Inverness would be its global research centre for blood glucose monitoring. Capgemini recently created 500 jobs in Inverness, and Daktari Diagnostics chose the city as the manufacturing base for its HIV diagnostic kits. BASF is investing hugely in Lewis—that is a fantastic investment for the Western Isles. The other companies I will mention are perhaps less high profile. The world's leading carbon fibre manufacturer is investing in Muir of Ord and there are more than 200 jobs based there; the world's leading nail varnish manufacturer—I think that I am right in saying that, although I am not particularly specialist in the subject—is expanding up in Invergordon; and Natural Retreats is developing John o'Groats. I could give similar examples from around the region.

I emphasise that to illustrate how, in addition to the indigenous company support that we focus on, international companies have been expanding in the region and creating a lot of jobs, too.

A number of projects that the committee has heard me go on about before have moved forward and some have come to fruition. The Inverness campus infrastructure is just about there—the first project will start on the site later this month; the European marine science park in Oban is open; the redevelopment that is taking place is transforming John o'Groats from a rather sorry visitor experience to one that is high quality; the creative industry centres in Shetland and Stornoway are open; Scrabster harbour is operational and attracting new business; and other places, such as Nigg, are developing very well.

Finally, I could not come to the committee without mentioning a project that I have been highlighting for the past two or three years: the roll-out of superfast broadband across the Highlands and Islands. We have finally got to the point of signing a contract. That project will be transformational when it takes place over the next two or three years.

We have managed to achieve all that by attracting funds from a number of sources on top of our grant in aid. In particular, I highlight the additional funds that we have had from the Scottish Government through shovel-ready funding, which has helped us to do a number of projects.

In 2013, we will continue to work on our four priorities, our KPIs will remain the same and our ambition remains high. There are a number of opportunities in the region—even in this tough

economic climate, there are many opportunities in energy, life sciences, business services and digital connectivity—that we want to push forward and realise as fast as we can.

In the past 10 days, the board has approved our budget, which is set out in our paper. The budget excludes other funds that we know will come through our books, such as those for broadband and Scottish land fund activities.

We have an ambitious plan for the region that builds on the success of recent years, and we are looking to ensure that we realise the opportunities that we think that the region has not only over the next year, but over many years to come.

**The Convener:** Thank you very much. That was an impressive canter through all the things that are going on in the Highlands and Islands.

The figures over the past three years show that there has been a steady decrease in your overall budget. What are you not doing today that you could be doing if your budget had stayed level?

**Alex Paterson:** Nothing. I think that you or one of your colleagues asked me a similar question the last time that I was here. Our budget has declined a bit over a number of years, although it has been fairly stable over the past couple of years. However, rather than make cuts, we have taken the view that we need to keep the ambition high. Therefore, we have gone out and found funds from elsewhere.

In October 2012, I indicated that we had, in the last year, attracted an extra £10 million. In the previous financial year, we brought in a figure in excess of that, whether that money went into our bank account or into projects in the region. Rather than stop doing things, my tack is to find other ways of doing them, so we have not stopped doing anything because of a lack of funds.

Forbes Duthie knows the numbers better than I do, so I invite him to comment.

**Forbes Duthie (Highlands and Islands Enterprise):** This year probably illustrates very well how we deliver on and maintain our budgets while not turning things down. We have always had a stock of projects—good projects, I hasten to add—on the shelf, which resources suggest that we cannot do. We are always looking for alternative ways of raising the funding to do those projects. The shovel-ready funding is a good example. There were a range of projects that we could progress with extra money this year, and the energy fund is also a valuable source of funding in that regard. As Alex Paterson rightly said, we find and lever in other funds. Our intervention rate might be a bit lower, but the project still goes ahead. Part of our negotiations with clients is about ensuring that we deliver the funds.

As you will see when we come back next year, our budget will be quite small in comparison with what we will deliver—on digital connectivity, for example. We also have energy projects that we are looking to develop in the region through the memorandum of understanding that we have with the ports and such like.

As I say, we do not have a policy of turning down good projects. We always try to find a way of working with clients and other public sector agencies or funders to make such projects happen.

**The Convener:** I have a question about the strategic forum, of which HIE is a part. In the Scottish Government's budget plans, the strategic forum was supposed to find savings of £20 million in 2012-13, going up to £25 million in 2013-14 and then £40 million in 2014-15. However, in the spring budget revision, the saving for 2012-13 is shown as not £20 million but only £5 million. That is a substantial drop in the savings that were supposed to be found. Will you explain the reason for that?

10:45

**Forbes Duthie:** The £5 million saving reflects what we could actually deliver with the projects that we managed to identify. HIE, Scottish Enterprise, VisitScotland and others are working on that. However, it is not about HIE or our partners; it is about how savings can be spread across the wider public sector. It has been a slow burn to get the projects up and running because some of them are quite significant. The majority that we are considering at the moment concern information technology, but there is more to come on property rationalisation and co-location.

The strategic forum savings are reflected as a grant in aid reduction to HIE. That happened midyear last year and, this year, our grant will be top sliced by £2 million for strategic forum savings. We knew about that, so we have been able to plan for it in the spending plans that are in front of you. That expectation is built into them.

The strategic forum partners continue to work to identify savings. One of the challenges is how we implement them across the wider public sector. It is relatively easy to implement them among the forum partners but it is a challenge to roll the programme out across the wider public sector.

**The Convener:** The saving of £5 million that is projected for the current year is a fairly dramatic shortfall against the original figure of £20 million. What confidence do you have that the projected savings of £25 million for 2013-14 and £40 million for 2014-15 can be achieved, given that there has been a pretty dramatic failure to achieve the target for the current year?

**Alex Paterson:** The figure of £5 million was what the partners thought they could achieve. If that had been extrapolated across a wider range of organisations—the intention was partly to spread strategic forum partner initiatives across other organisations—the target could have been achieved. However, that approach has proved to be slightly difficult.

The reality is that we will all make our individual savings and collectively work on the projects that we have in hand that will deliver the collective savings, but our budgets will be reduced to reflect our share of the savings. It is a twin-track approach. We continue to pursue the savings, but the £20 million savings for last year will never be made overnight, and our budgets will reflect our share of the savings.

**The Convener:** My point is that the Scottish Government is assuming that you will make the savings. It is taking the money away from you in advance, if you like, and you then have to do the heavy lifting behind the scenes to try to make up the difference.

**Alex Paterson:** In effect, yes.

**Dennis Robertson (Aberdeenshire West) (SNP):** Good morning, gentlemen. You seem quite excited about the roll-out of superfast broadband in the Highlands and Islands. At the moment, many people have no connection at all. Is that project on track? Will it open up new opportunities for you to bring business in because you will have the digital connectivity to support those opportunities?

**Alex Paterson:** Yes, we are on track. We signed the contract at the end of March. The first stage is for the BT engineers to get out on the ground and do surveys, and they are well advanced with all the survey work.

The vast majority of the work will be done by the end of 2015, although some of it will go into 2016. It is early days, but we have no reason to think that that timescale is not achievable. In fact, we are doing work with local authority colleagues to try to bring it forward.

The project that we have announced aims to cover at least 84 per cent of premises throughout the Highlands and Islands. Without it, there would be only 21 per cent coverage, so it represents a huge step change.

On the difference between the 84 per cent and 100 per cent, which is the Government's 2020 aspiration, we are already working on how we get beyond the 84 per cent. There are a number of initiatives, one of which is the community broadband Scotland initiative. We also have an innovation fund as part of our project to deploy technologies that are in the labs just now but

which will become available over the next couple of years. We need to reach the 84 per cent before we address the remaining 16 per cent, as some of our more remote areas need physical points of presence on which to hook community broadband projects.

You are absolutely right that the roll-out of broadband creates huge opportunities. Although the £146 million project is critical, what we do with it once we have it is just as critical. We are using the fact that we already have connectivity to promote the region for inward investment. One of our priorities is digital healthcare, and good connectivity is necessary for such things. We also think that there are opportunities and business models, particularly in the business services sector, involving homeworking, for which the geography is immaterial to the business that people can do.

The roll-out also has major implications for existing businesses, as it changes business models and allows people to internationalise their businesses in a different way. We are already moving on from getting the fibre in the ground and under the sea to looking at the business, community, learning and tourism benefits that broadband will deliver. As I said, it is a hugely transformational project for the region that goes way beyond just getting the fibre and into realising the benefits.

**Dennis Robertson:** You are obviously looking at a cultural shift in some areas. You just mentioned homeworking. How many Highlands and Islands Enterprise staff work from home? Have you calculated the savings from homeworking in relation to CO<sub>2</sub> emissions and transport costs?

**Forbes Duthie:** Probably about half a dozen staff work from home already, and we are looking at flexible working policies. We have not done a calculation of carbon reduction, but it is an interesting point. I am sure that we need to look at that.

In addition to the broadband roll-out that Alex Paterson mentioned, HIE is improving its own infrastructure and IT through a project that we are calling “the office of the 21st century”, which gives staff the freedom to do their job where they are. Their laptop becomes their mobile office, so they can work from anywhere. We are trying to become an exemplar for such roles, because we need to practise what we preach. If we are telling businesses that this is a new way of engaging and working, we must demonstrate how we would do it and how we would benefit from it. That is very much the direction of travel.

**Alex Paterson:** We know from the homeworking pilots that some companies have

done that there are benefits through increased productivity and lower costs. Homeworking also opens up additional labour market opportunities: people use technology rather than having physically to go to somewhere. As Forbes Duthie says, we want to move in that direction ourselves, and we know that, in the business services sector and possibly other sectors, the idea of homeworking with good access to connectivity creates real opportunity.

**Dennis Robertson:** Quite a lot of information is available about homeworking being much more productive, with organisations, companies and agencies getting a lot more from staff who homework, in relation to the number of hours worked and the fact that they do not need travel time and so on. It is a more productive way of working.

How hopeful are you of getting the remaining 16 per cent connected by 2020?

**Alex Paterson:** Very hopeful. It is important to emphasise that getting the 84 per cent connected is not the end; we must increase the figure to 100 per cent. Doing that right now, however, would cost a fortune, which nobody has. Indeed, it is technically not possible to reach 100 per cent because premises in some parts of the region are just too far from exchanges. Nonetheless, we are already looking at a number of initiatives to get us there. There are technologies in development that should be able to bridge that gap, and we are working on that. We are leading on community broadband Scotland on behalf of the Scottish Government, with Scottish Enterprise, the Convention of Scottish Local Authorities and others. That initiative is already working with communities that want to develop their own community broadband projects, which will be enhanced by having the basic infrastructure in place.

It is critical that we get 100 per cent coverage, and what we are doing marks a huge step in that direction. We are ensuring that the basic foundations and enabling infrastructure are in place to make it possible to reach the final 16 per cent. In any case, technologies that will be deployed in the Highlands and Islands within the current project will take us into that 16 per cent.

**Dennis Robertson:** So the model in the Highlands and Islands could be replicated in other parts of Scotland that have poor or no connectivity.

**Alex Paterson:** Absolutely. After all, community broadband Scotland is a national fund. This is the biggest and undoubtedly most challenging broadband project in Europe and if it can be done in the Highlands and Islands it can be done anywhere.



**Dennis Robertson:** That is fine. Thank you.

**Marco Biagi (Edinburgh Central) (SNP):** Following on from Murdo Fraser's questions about the budget, I note that, despite the reduction in overall staff and resources, the number of HIE account-managed organisations has essentially doubled since 2009. Are those organisations getting the same quality of service that they received in 2009 and, if so, how have you achieved that?

**Alex Paterson:** You should bear in mind when account management started, and we started off with a low base and built from there by increasing the number of account-managed companies and social enterprises. We are very conscious of the need to increase the numbers; in fact, we are looking for new account-managed businesses because we do not want to become static.

We support those organisations in a number of ways. First, a lot of our own staff are account managers. As you have seen, the trend over a number of years has been towards a reduction in our staff numbers. However, there was no reduction last year because we need to keep a certain level of resource to deliver the organisation's business, particularly with new big projects such as broadband coming through.

In addition to our own resources, there are a number of what you might call call-off products that our account managers can use. For example, we have tied in our partnership working with Scottish Development International to ensure that all our account-managed companies have access to the full range of SDI's resources; we have tapped into the Scottish manufacturing advisory service to ensure that a specialist advisory service is available; and we have partnerships with the Institute of Directors and the Massachusetts Institute of Technology. As well as providing their own advice, our account managers are the conduit through which a range of other advisory services, financial products and so on can flow into our businesses. Although the number of account-managed organisations is increasing, we have other ways of supporting businesses aside from the support that is provided by our account managers. The advice and other services that the companies get have not diminished; instead, we have built up the base from a low start.

**Marco Biagi:** Clearly, 648 is a rather large number. Have you surveyed the group to find out how satisfied they are with the service that they receive?

**Alex Paterson:** We have a number of mechanisms. For example, this year we will carry out a comprehensive evaluation of our account management approach. We also carry out what we call pulse surveys—indeed, we are carrying

one out at the moment—in which we engage with businesses on a range of topics to ensure that our finger is on the pulse of what is going on out there. Moreover, I and our chair spend time out and about talking to our businesses.

Let me be honest: as with any organisation, things do not always work and sometimes we have to change the relationship, but my sense from talking to people and the feedback that we get through other mechanisms is that levels of satisfaction are good. However, we are never complacent and the full evaluation that we have planned for this year will give us solid evidence on which to move forward.

**Margaret McDougall (West Scotland) (Lab):** I am sure that you will correct me if I am wrong but I understand that the islands of Arran and the Cumbraes come under HIE's remit for certain grant funding. You have mentioned neither yet, so can you say a few words about the closure of the marine station on Cumbrae and what you are doing to help?

**Alex Paterson:** You are absolutely right about our remit. As someone who was born and brought up in North Ayrshire, I certainly do not overlook Arran and the Cumbraes. They are a vital part of our region, and we work with account-managed companies and social enterprises and other organisations in both areas. In fact, I was recently due to be in Arran with North Ayrshire Council.

We have been very close to the developments at the marine station in Cumbrae and are disappointed that there seems to be no way forward with the University of London and Scottish institutions to maintain the facility as a marine station.

Our current focus is on working with the community to see whether there are other opportunities for the facility on Cumbrae. The impact of the job losses is quite significant on Cumbrae generally, and in Millport in particular.

11:00

Our Argyll and the islands team is heavily involved with North Ayrshire Council, the Scottish Further and Higher Education Funding Council and those at the marine station itself as we consider the options. My sense is that, unless things have moved on in the past few days, an existence and a future similar to what went before are less likely. It is now a case of what more we can do with the community to go forward and generate new opportunities for the island—and there is a good community development company on Cumbrae.

**Margaret McDougall:** I appreciate what you are doing for the Cumbraes, and I would appreciate

being included in what is happening. Up until now, I have not been aware of what has been going on.

Is Arran being included in the broadband roll-out project?

**Alex Paterson:** Yes, absolutely—Arran and Cumbrae will be included. The Cumbraes are slightly better off, because they have a point of presence back to Largs. I cannot remember the figure, but suffice it to say that Arran will do very well out of broadband roll-out, as a subsea cable will be going in that will improve things. Nineteen subsea cables are being deployed as part of the project. Arran and the Cumbraes will be well catered for as part of broadband roll-out.

**Chic Brodie (South Scotland) (SNP):** I will start with a story. Over the past two and a half years, I have been investigating what happened to the oil that was being drilled for between Ailsa Craig and Sanda Island off the tip of the Mull of Kintyre. Apparently, two rigs were capped by the Government of the time, because of the nuclear submarines that went backwards and forwards up and down the Firth of Clyde. The matter is still being pursued. In the course of that investigation, it transpired that, since the last round of exploration licences, the Parkmead Group has been exploring for oil 200km off Tiree. What engagement do you have with the oil and gas sector?

**Alex Paterson:** Generally, a fair amount. Specifically regarding that case, I have no idea—I would need to find out about that and come back to you.

More generally, the sector is growing rapidly across the region. There are not many engineering or energy businesses that are not doing well. There are companies such as the Global Energy (Group) Ltd, there are developments further north and we even have oil and gas companies moving out of Aberdeenshire and into Moray, looking for more stable places to locate their businesses.

We have contact with the sector and with companies in it, and we work with them through our account management process. If you are asking me about that specific project, however, I will have to come back to you.

**Chic Brodie:** That is just one project, but there are several. Given the opportunities—and despite what the doubting Thomases are saying about how much oil and gas we have—there are huge opportunities off the coast of the islands, even if they are not at anything like the level of the North Sea.

In today's paper, we read the headline "Renewables hold key to 10,000 jobs for islands". That is great news. If we follow through on the oil and gas thing, it could be three times that—or

certainly double that. How are you going to attract people to the islands?

**Alex Paterson:** That is a problem for Scotland with regard to how we respond to the job opportunities for the energy sector. However, my first response is that we have done it before, when oil was at its height many years ago—whether it was in Easter Ross or elsewhere, people were found. People are coming and doing work in Shetland now.

There are two issues here. One is a skills issue. Right at the top of our agenda is ensuring that the region has the necessary skills. Secondly, how do we attract the people to do the work? That is a challenge not just for the Highlands and Islands, or even just for the islands—we all have a challenge in how we respond to the opportunities that are there. We are working hard with Skills Development Scotland and the industry to find ways to do that. One example is the Nigg skills academy. Hundreds of youngsters—and not just youngsters—are going through that facility, which provides training for the energy sector. That model could be replicated and other initiatives could be put in place to attract the people and develop the skills that are required for the sector.

We have to be optimistic. If the opportunities are there and if good careers and jobs are there, we have to be optimistic that people will see the opportunities and move to where those opportunities are.

**Chic Brodie:** For my sins, I am the convener of the cross-party group on social enterprise. There has been substantial growth in social enterprises over the past two years. Part of the problem, however, is ensuring that we have bona fide social enterprises. Can you share with us how you qualify those that might require financial support? How do you ensure that they get the correct business support, which in some cases is more important than the financial support? How do you then integrate your activities with those social enterprises, the business support environment and the local business gateways?

**Alex Paterson:** First, in providing support, we do not differentiate between businesses and social enterprises; our first priority is to support businesses and social enterprises to shape and to realise their growth aspirations. Our account managers who work out in the field deal in an equal way with account-managed businesses and with social enterprises. I reckon that, out of a total of 648 account-managed businesses, probably about 150 are social enterprises.

Secondly, social enterprises have access to the full range of our support products just as a more conventional business would have. Whether it is our advisory services or graduate placement

programmes or anything else, social enterprises have full access to them as well as to our funding mechanisms.

In addition, we support specific initiatives for social enterprises—the social enterprise academy, the Highlands and Islands social enterprise zone—a whole range of things are there to support social enterprises but we do not treat them as a special case. They are integral to what we are trying to do and they are as important to us as conventional businesses. In many of our communities, social enterprises are the heart—they are the core organisations through which we work to deliver opportunities and jobs.

**Chic Brodie:** But how do you check that they are bona fide social enterprises? Part of the problem is that we have enterprises saying that they are social enterprises, and we have a funding stream that embraces—at the last count—42 different types of funding streams, which is not efficient, and that has been looked at. How do you ensure that you are supporting the winners?

**Alex Paterson:** I will drop you a wee note on the specifics of how we would check out or assess social enterprises, because I am not sure whether there is anything different in our social enterprise approach. We do not distinguish between the businesses and social enterprises that we work with in the types of support that we can give to them. The critical thing is growth. We work with a business with a growth plan and say, “What are you trying to achieve, where are you trying to go and how can we help you to get there?” Exactly the same process operates with a social enterprise. We need to understand what its plan is, what it is trying to achieve, what the impacts of that will be and therefore where our support or input can help to facilitate and accelerate that project. In that sense, there is no difference between our business support and our social enterprise support, but I will come back to you on the specifics of how we do the check on social enterprises.

**Chic Brodie:** Thank you.

**Mike MacKenzie (Highlands and Islands) (SNP):** I do not know about other members, but I have certainly detected a new spring in the step of HIE over the past year. I commend you—I think that things are going very well. However, I have a remaining concern, which relates to your work in fragile areas, which you mentioned earlier. A long-standing concern of mine is that, if you take the phenomenal growth of Inverness over the past 30 years out of the economic equation for the Highlands and Islands, what is left behind does not look all that good. Are you getting the balance right between the high-growth area of Inverness and some of the peripheral areas that surround

Inverness and the fragile areas at the other end of the spectrum?

**Alex Paterson:** I could spend a long time on that, but I will try to summarise. We are conscious that a lot of the growth that is happening through inward investment, for example, is in Inverness. That is why we have explicitly said in our operating plan, and in our evidence to the committee, that our remit relates not just to growth in the inner Moray Firth area—that is great if it happens—but to economic growth across the Highlands and Islands. We have tried to put more focus on our fragile areas. For example, last year, almost 160 jobs were created in the fragile areas through our work.

We want to put more emphasis on fragile areas. In fact, we have a new policy on how we try to do that. I will mention some of the hooks in the fragile areas policy and where it is going. First, we support businesses, social enterprises and communities in our fragile areas, and that will continue to be the heart of our approach. We account manage 48 communities, just about all of which are in our fragile areas. We have gone from a measure that asks, “How many are you dealing with?” to one that asks, “What difference are you making?” I could give many examples of where we are working with communities in fragile areas that have growth plans and are doing things that move the community forward.

There are a few other points. It is critical that we get broadband into our fragile areas, which is why the broadband project goes into many fragile areas and not just the obvious centres of population. Other points are to do with our sectoral activities. For example, a lot of renewable energy generation will happen in our fragile areas and some of our opportunities on tourism and the creative industries and culture are in those areas.

If you look over the year that has just gone, and even more so going forward, you will find that we demonstrate not just an Inverness focus. We are equally interested in all parts of the Highlands and Islands. I could walk you round the whole area and point to projects on islands in Shetland, Argyll and elsewhere where we are doing things that would convince you that we are not just focused on the big areas.

It is useful to bear in mind one or two other things. The census data that came out last year showed that the population across the Highlands and Islands grew by 7.3 per cent. In places such as the Western Isles, where I think everybody assumed the population was declining, it actually rose. The population is rising in Orkney and Shetland and in some of our more challenging fragile areas. There are opportunities for fragile areas. Be assured that HIE is increasingly focused on ensuring that our fragile areas get more

attention, because more work is needed in those areas to achieve economic and community growth than is needed in, for example, Inverness or the Moray coast.

**Mike MacKenzie:** That leads on to my next question, which is kind of related. I fully support the focus in account management on businesses that have growth potential, because we cannot get growth by assisting businesses that will not grow. However, given that Scotland's economy has suffered for a long time from lack of start-ups and insufficient churn, I wonder how effectively you work with local authority partners. That relates not only to their delivering the business gateway and the pipeline of projects that are coming through and, we hope, ending up as account-managed businesses with HIE, but, in general terms, to promoting an ethos and culture of sustainable economic growth so that all the boats are lifted, not just some of them. Will you say a wee bit about how well that is going?

**Alex Paterson:** There were a few points there. On how we work with local authorities on the business gateway, the answer is that we work well but there is scope to do more. It works particularly well where we are co-located. We are co-located down in Lochgilphead and up in Stornoway, Lerwick and Kirkwall, and probably in other places that I have missed out. From the business point of view, there is literally one door to walk through because the business gateway and HIE are co-located. That does not happen everywhere, but it happens in a number of places, and it works well.

We have a pipeline with the business gateway that we are all sighted on. I cannot remember the number, but we take on a high percentage of the businesses that the business gateway proposes to us for account management. However, we are looking at ways in which the process can be lubricated more effectively. We work fairly well with the business gateway.

11:15

Across the Highlands and Islands, the business start-up rate is ahead of the national average. We have done some high-growth business start-ups across the region. While we have a particular remit of focusing on growth companies, and the business gateway has its particular focus, I am quite keen that we should work together to do things that the wider business community can benefit from. For example, I had five businesses in my office on Monday afternoon, none of which was account managed. Basically, they were saying, "We're out here in the community. Is there something that HIE and gateway can do jointly to give us a boost?" A lot of it is about communication and networking, and I said that I was happy to look at doing something there.

We also support the Scottish Chambers of Commerce mentoring programme. A number of our own products and services are available to all businesses and not just account-managed companies. There is a lot going on out there. Maybe we can join it up better. Although we could improve how it is going with the gateway, it is operating reasonably effectively at the moment, particularly where there is co-location in one building.

**Mike MacKenzie:** You are doing a pretty good job of filling up the bucket of economic growth, but there are leaks in the bucket. Of particular concern to me is the fact that a number of businesses have gone down over the past year on Orkney. Orkney Meat Ltd and the Orkney Herring Company have fallen by the wayside, as, more recently, has Ortak. I would refer to those as the holes in the bucket. Those all seem to have been businesses that you might formerly have account managed because they were paragons in their own way—they were good business models that were, unhappily, caught by the recession rather than having any other fundamental problems. Is there any way that you can plug some of those holes in the bucket? Can you engage with and support companies before they get to the point at which the plug is pulled by the liquidator, to prevent that kind of thing from happening?

**Alex Paterson:** The answer is yes—we do. You mentioned a few examples. There are many other examples in which we have intervened and probably averted their becoming the headline. I could add Icetech Freezers in Caithness to the ones that you have mentioned, which had the legs taken from under it after the demise of Comet. Each of those has its particular circumstances, which it would be inappropriate for me to go into at the moment. Suffice to say that we knew all those businesses and, where we could do something, we did. I have spoken to the managing directors of Ortak and Icetech and we have looked at all the options for supporting those businesses going forward.

With some of them, it is not the case that the door is closed and nothing else will happen. We maintain an internal note of businesses that are on the radar of being in difficulty to ensure that we are in there, looking at what support we can provide, rather than waiting for something to happen and wishing that we had given our support. We cannot always help, but I assure you, Mike, that when we are aware of a business that is struggling, we pull out all the stops and see what we can do to avert any adverse situation arising.

**Mike MacKenzie:** Obviously, there are other businesses, but the reason why I confined myself to Orkney is that, because the community is relatively small, it almost becomes a strategic

problem for the area. In such circumstances, interventions would be particularly helpful. I am not sure that the public and the business community know that you are able to help in such circumstances. It is important that businesses knock on your door before they get to the point at which the plug is pulled rather than afterwards. To avoid such outcomes, early interventions can be much more desirable. Do the public and the business community know that you are willing to engage, to help to prevent those kind of problems?

**Alex Paterson:** I hope that they do. We are certainly not the answer to every problem. We work with our account-managed companies, so I certainly hope that, if any of them got into difficulties, they would be aware that we are there to help or to look at helping. There are some circumstances that businesses get into that we are not able to assist with—if the whole firm is in difficulty—but our mindset is not to say, “There’s the problem and we can’t help,” but to ask, “Is there any way in which we can help this business through this situation?” We have managed to do that for some businesses and you will not have heard that we have done that, but it might not have been possible for particular reasons for us to help one or two others to which you have alluded. There are technical reasons that limit us, but I hope that our account-managed companies are aware that they can pick up the phone to call us. We often find ways forward with companies in conjunction with banks. As I said, our mindset is to try to find ways of preventing such situations from happening.

**Mike MacKenzie:** Thanks very much. That is very reassuring.

**Dennis Robertson:** I have a fairly general, broad-brush question. What are the main barriers and obstacles to the Highlands and Islands moving forward to realise your ambition? The competitiveness around the skills market for the energy sector, for instance, was one thing that came to my mind. There is a skills shortage in Aberdeen, Aberdeenshire and the rest of the north-east. Are there specific obstacles and barriers that you need to overcome?

**Alex Paterson:** I will speak about just a couple. We have touched on skills. That is a Scottish issue, but we have that issue, as well. That said, Capgemini thought that it was entirely possible to find 500 people for new jobs in the Inverness labour market, and members will probably see another announcement in the next week about another company finding jobs, too. Two life science companies have expanded in the area. Tightness is a challenge in the labour market, but companies still see opportunities. Our job is to find

creative ways of addressing the supply side rather than saying that it is a major problem.

The other barriers to our aspirations include the infrastructure. There have been recent discussions through the Department of Energy and Climate Change on transmission charging for the renewables sector, particularly for our island communities. It is vital that we find a way forward on a charging mechanism that makes island generation viable. There will always be challenges around the grid.

I hope that the headlines that I saw on the BBC website last night on Flybe and its Gatwick slots do not have an adverse effect on the Highlands and Islands, because connectivity—whether it is digital or physical—is critical.

The two issues that are important to us are the skills and people dimension; and transmission charging to the islands and ensuring that the critical bits of infrastructure, such as the interconnectors, are in place. They are at the heart of the aspirations for renewable energy.

**Dennis Robertson:** So basically you are looking at and would welcome greater connectivity in the airlines that go to Inverness to support that infrastructure.

**Alex Paterson:** Yes.

**Dennis Robertson:** What about the rail network? Will it improve the number and speed of trains that go to the Highlands? I know that there will be better wi-fi connections in First ScotRail, and obviously you would welcome the upgrading of the A9.

**Alex Paterson:** A number of rail, road and ferry transport announcements have been made, which we welcome. They are great.

In terms of what we would be greedy for and ask for more of, air connectivity is critical. The London slots are vital. I do not think that we are expecting a Heathrow slot soon, but it would be great if we could have that, and connectivity to Gatwick is vital.

That is why we have put such store in the new Amsterdam link, which is vital, as it has had 25,000 users in its first year. Many would say that it is perhaps preferable to go from Inverness to Amsterdam and the rest of the world and code share with KLM than to go through Heathrow. However, air connectivity is vital. If we can have an Amsterdam link twice a day and perhaps create a link to another major European hub, that would meet our aspiration.

**Dennis Robertson:** That would be similar to Aberdeen with a Frankfurt hub.

**Alex Paterson:** Exactly. The reality is that, if a person from a major company or an inward

investor is flying from the States to Inverness, they have a couple of options. They can fly to Inverness via Manchester; they can go to London and go round from Gatwick to Heathrow to get the connection; or they can go from America to Amsterdam and then to Inverness. That is very attractive. For the foreseeable future, our ask would be to get another connection option and more frequency, similar to that in Aberdeen, although the frequency in Aberdeen has always been much greater. We would like to build stronger links to the hubs.

**Chic Brodie:** We all have our predilections for particular airports; my own is Prestwick. There are airports in the Highlands and Islands other than Inverness—namely, Stornoway, Barra and Oban. Next Thursday, I am due to ask a question about an overall airport strategy for Scotland. What are you doing with local authorities to help them with the challenges they face with regard to those particular airports?

**Alex Paterson:** I think that I am right in saying that all the airports are operated by Highlands and Islands Airports Ltd. We work closely with Inglis Lyon and his team at HIAL. The air services around the Highlands and Islands are okay; our efforts are towards getting connectivity beyond the region. There are one or two new ideas around, such as the Skye airport proposal, which has been the subject of a bit of work recently. There is also talk from time to time about expanding Oban airport. Although this is not my specialism, my sense is that the inter-Highlands and Islands air connectivity services are pretty good. As I say, our focus has been trying to get connectivity to hubs outwith the region to make connectivity to the region better.

**Chic Brodie:** If we look particularly at Inverness, what impact does air passenger duty have on people coming into the Highlands and Islands?

**Alex Paterson:** We have a transport guru who could answer that question in detail, so I will get that answer for you. Suffice it to say that it would help if there were no air passenger duty. I think that I am right in saying that flights leaving the region do not have APD, although those coming in do have it. If APD was not there or was reduced, that would be beneficial—to state the obvious.

**The Convener:** May I ask about something on which we have not touched yet: the question of business access to finance, which perhaps falls under the heading of barriers. The committee has spent a lot of time looking at that issue in the past. From the conversations that you are having with businesses, can you say how big a problem that is? Is it a problem that is growing, staying the same, or getting better? What are you doing to help?

**Alex Paterson:** As I mentioned earlier, we have an access panel of account-managed businesses, which we question from time to time. We asked them questions about finance last time so, rather than waffling, I can give you some evidence of facts and figures.

Of those who responded to our survey, 56 per cent had sought finance in the past 12 months. Most of that was to fund growth. About half of those that sought funds got some of what they asked for. A third got everything they asked for, so there was some success. A number of businesses were unsuccessful: a small number—6 per cent—turned down the finance offered. The issue of finance is undoubtedly out there and we are very conscious of that.

We are doing a number of things to help. The businesses that succeeded in getting the finance they asked for were clearly good, well-managed businesses with good plans. Part of our account management approach is to develop the wider businesses, with better management, leadership and so on, which contributes towards better propositions.

We also invest in the businesses ourselves. We give grants, make loans and take equity in businesses. We probably have made more loans in the past year than we have for a very long time. We are using de minimis interventions under state aids quite a bit at the moment. We are co-investing alongside banks and with angel networks; we work closely with the banks on a case-by-case basis to see how we can package together something that is attractive to individual client businesses. We ran a number of workshops for businesses on the whole issue of how to approach a bank and how to access different forms of financial support.

Access to finance is certainly an issue. We know the scale of it; our account managers are living and breathing it every day; and we are trying to find ways of using our funds as well as working with the banks to address it. Our chair and I are currently touring the banks—I am not sure that you bag banks in the same way that you bag Munros—to find more effective ways of working with them at senior and local levels on these common accounts. There is no doubt that this is a challenge, but we are using a number of methods to work with businesses and to ensure that growth is not stifled through a lack of finance.

**Chic Brodie:** You make a very interesting point. We all seem to be focusing on banks but three weeks ago I was in the City of London talking to an investor and there is so much money down there that no one knows what to do with it. Are you precluded from speaking to commercial people, say, to secure equity finance through the City?

**Alex Paterson:** No.

**Chic Brodie:** So why are you not doing that?  
Are you doing it?

**Alex Paterson:** Yes. We have recently spoken to a number of banks and others down south; indeed, just last week, I had a conversation with someone who looked at one or two of our projects and said, "I think I could put some money into that for you." We have also used other mechanisms to make contact with some venture capital people in the City who are particularly interested in supporting our life sciences sector. I cannot point you to a big deal that we have done, but we are having conversations about bringing in that type of finance for specific projects.

**Chic Brodie:** We should have a conversation.

**Alex Paterson:** I would be delighted.

**The Convener:** If no one else has any questions, I will draw the session to a close and thank the witnesses for their very helpful responses.

11:31

*Meeting suspended.*

11:36

*On resuming—*

## **Subordinate Legislation**

### **Late Payments of Commercial Debts (Scotland) (No 2) Regulations 2013 (SSI 2013/131)**

**The Convener:** Item 2 is consideration of a Scottish statutory instrument. As the cover paper makes clear, the Subordinate Legislation Committee has drawn the Parliament's attention to the fact that these regulations are late as a result of an initial drafting error. If members have no comments, are we happy to make no recommendation on the regulations?

**Members** *indicated agreement.*

**The Convener:** Thank you very much.

*Meeting closed at 11:37.*





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