



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Monday 30 September 2013

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Monday 30 September 2013

CONTENTS

DRAFT BUDGET SCRUTINY 2014-15	Col. 3299
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ECONOMY, ENERGY AND TOURISM COMMITTEE
26th 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)

Alison Johnstone (Lothian) (Green)

*Mike MacKenzie (Highlands and Islands) (SNP)

*Hanzala Malik (Glasgow) (Lab)

*Mark McDonald (Aberdeen Donside)

*Margaret McDougall (West Scotland) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Forbes Duthie (Highlands and Islands Enterprise)

Adrian Gillespie (Scottish Enterprise)

Ken Neilson (VisitScotland)

Alex Paterson (Highlands and Islands Enterprise)

Malcolm Roughead (VisitScotland)

Iain Scott (Scottish Enterprise)

CLERK TO THE COMMITTEE

Stephen Imrie

LOCATION

The Volunteer Rooms, Irvine

Scottish Parliament

Economy, Energy and Tourism Committee

Monday 30 September 2013

[The Convener *opened the meeting at 13:59*]

Draft Budget Scrutiny 2014-15

The Convener (Murdo Fraser): Good afternoon, ladies and gentlemen, and welcome to this meeting of the Economy, Energy and Tourism Committee in Irvine. I ask everyone to turn their mobile phones and other electronic devices off or at least to silent to ensure that they do not interfere with the sound equipment.

I thank our witnesses for coming this afternoon and I welcome everyone in the public gallery. As part of our visit to Irvine, we had discussions this morning with local businesses and organisations about how the Scottish Government's spending plans will impact on the local area and I thank everyone who participated in those sessions. At lunch time, Chic Brodie, Margaret McDougall and I met pupils and staff from local schools—Auchenharvie academy, St Matthew's academy and Largs academy—and I thank them for their questions and for joining us in the public gallery.

The purpose of the committee's visit is to continue our examination of the Scottish Government's draft budget for 2014-15. At the moment, committees across the Parliament are looking at how the Scottish Government proposes to spend its £35.4 billion next year, and this committee is focusing on those aspects of the budget that fall within its remit.

Before I ask a member from each of this morning's workshop groups to feed back on what was said, I intimate that we have received apologies from Dennis Robertson, Marco Biagi and Alison Johnstone and that Hanzala Malik has to leave shortly for another engagement.

I invite Mike MacKenzie to give us some feedback on what was discussed in his group.

Mike MacKenzie (Highlands and Islands) (SNP): We had a pretty wide-ranging discussion with a number of representatives from businesses both small and local and on a national scale. We began with the issue of skills, on which there was a fairly mixed range of views. Some felt that the marketplace with regard to agencies offering to assist with skills development was complex and cluttered and it was interesting that there seemed to be consensus that there was not much help

available from Government for the 25 and over age group.

There were a couple of representatives from Scottish Enterprise account managed businesses who, although fairly happy with the experience, felt that it was a bit bureaucratic, and some complained that Scottish Enterprise was ignoring rural areas and called for a wider range of assistance similar to that provided by Highlands and Islands Enterprise in its area. There was also disappointment that Scottish Enterprise was not doing more to help with the development of renewables. However, the account managed businesses seemed fairly content with the assistance that they were receiving. On skills, I was interested to hear a representative of a major supermarket say that they had a very productive relationship with Remploy, because I do not think that the committee was aware that Remploy worked in that way with supermarkets.

Our discussion was, as I have said, fairly wide ranging and was not confined to scrutiny of the budget. After all, it was only to be expected that businesses would take the opportunity to tell the committee about the various areas of interest within its general remit. For example, procurement was a big issue and, as we know, the procurement bill is about to start its progress through Parliament. There was also a mixed response on the availability of finance, with some reporting that the banks were much better than they had been and others saying that they were not.

I am sorry to say that there was a fairly negative perception of VisitScotland and the work that it is doing, although one witness, in suggesting that there is an absolute need for us to focus on areas such as golf tourism because we are under fierce competition from places such as Ireland, welcomed the fact that VisitScotland has some extra resources and hoped that it will spend them in that direction.

The supermarket representative was concerned about the health levy and minimum unit pricing. I do not think that any of us will be surprised by that.

That pretty much sums up our discussion.

The Convener: Thank you, Mr MacKenzie. I invite Chic Brodie to feed back from his group.

Chic Brodie (South Scotland) (SNP): Good afternoon. In addition to the convener's thanks, I express my personal thanks to the participants, who came from Irvine Bay Regeneration Company and companies representing rural areas, construction and youth employment agencies.

We covered more or less the same areas that Mike MacKenzie mentioned. Youth employment took up a fairly significant amount of our task force's time. The view was that the current system

for access to youth employment is far too complicated. There was a view that it would be better if companies took responsibility for training new employees, be they modern apprentices or part of the opportunities for all programme. The view was that there should be a continuum of employment training within jobs rather than people necessarily going to colleges and universities.

One participant was clear that there has been too much emphasis on the university education route as opposed to establishing a more cohesive balance and providing not just jobs that people are suitable for but jobs that they want to do.

We talked about small and medium-sized businesses, and the view was that local authorities and indeed most parts of the public sector should not be involved in industrial and commercial entrepreneurship. We heard that the business gateway should not be in local authorities and that we should consider an approach whereby there is, if you like, a lower tier of Scottish Enterprise across Scotland, because the initiation and growth of some small businesses is inhibited by local authority boundaries. Someone might want to move from a job in one local authority area to a job in another area, but it might have a different set of employment criteria and a different set of economic development plans. That was a concern.

We also talked about access to finance, particularly for small and medium-sized enterprises—that will be part of our conversation this afternoon—and the need to help them to grow. A lot of emphasis is placed on how we start up small and medium-sized businesses and we put money behind them, perhaps without the necessary qualification, as opposed to putting that money into stimulating successful small businesses.

The forthcoming procurement bill was mentioned in the context of how local authorities address public procurement. The view was that they are still skewing their procurement in focusing on price rather than quality. It was mentioned that 70 per cent of public sector procurement tends to dwell on price and only 30 per cent on the quality or applicability of products.

We could have spent all day discussing the issues, but in the last part of our discussion we heard that the current thought processes around planning are not conducive to the economic growth that we require. The view was that the financial crisis appears to have bypassed all the planning departments and that they are not moving in the real world.

All of those were valued contributions that we shall expand on this afternoon.

The Convener: Thank you. I will report briefly on the group that I was on. A lot of the issues that were raised reflected what has already been mentioned.

On enterprise, access to finance was considered important, particularly for small businesses and start-up businesses.

There was a feeling that Scottish Enterprise sometimes rather neglects the south of Scotland, and there is a bit of jealousy of Highlands and Islands Enterprise. There is a feeling that the south of Scotland would benefit from having its own enterprise agency with a remit similar to that of HIE for strengthening fragile communities.

On the employability agenda, it was felt that there is a need to streamline the different programmes that are available, particularly for young people, as the landscape is too complex for employers. There was also a proposal that we consider extending the age group for modern apprenticeships because the criteria for entry are sometimes too restrictive.

Broadband came up as a big issue for rural areas, and the group wondered whether the Scottish Government can contribute to the set-up costs for satellite broadband in areas that cannot get access by land line.

There was concern about the complexity of a lot of the programmes for energy efficiency and fuel poverty, which is affecting take-up. It was felt that there is a need for a reliable, objective and independent source of advice for consumers and businesses.

On tourism, there was some criticism of VisitScotland, and there was talk of the need to focus more on the local products on offer in different parts of the country and the need for a different approach to the staycation and international markets.

That summarises the meeting that we had. It is obvious that there was a lot of crossover between the three different groups in what was discussed.

Item 2 on the agenda is evidence taking for the continuation of our budget scrutiny. I am pleased to say that we are joined by Forbes Duthie, director of finance and corporate services at Highlands and Islands Enterprise; Alex Paterson, chief executive of Highlands and Islands Enterprise; Iain Scott, chief financial officer at Scottish Enterprise; Adrian Gillespie, managing director of operations, company growth, innovation and infrastructure at Scottish Enterprise; Malcolm Roughead, chief executive of VisitScotland; and Ken Neilson, director of corporate services at VisitScotland. Welcome to you all.

For the benefit of our audience, I point out that the enterprise agencies are here to encourage

economic development, enterprise, innovation and investment. Scottish Enterprise covers the eastern, central and southern parts of Scotland while Highlands and Islands Enterprise operates in the north-west. VisitScotland is the national tourism agency and is responsible for attracting visitors to Scotland.

You have all asked to make a short, introductory statement. We will start with Alex Paterson.

Alex Paterson (Highlands and Islands Enterprise): Thank you for the invitation to be here. I am particularly pleased to be in North Ayrshire, where I was born and brought up. There may be students here from Auchenharvie academy or Largs academy—schools that we often played at football. We usually won, but I leave that aside. I am delighted to be here.

It is only four months since we were last here, so I will make one or two comments about things that have happened in the intervening period. Life goes on, and good progress has been made across the Highlands and Islands on some of the issues that we spoke about the last time. Next month—which starts tomorrow—we will announce the first phase of the roll-out plan for superfast broadband throughout the Highlands and Islands, so people will start to see where is going to light up first. We are delighted that the University of the Highlands and Islands is now on site building part of the new campus up in Inverness. Cap Gemini, which we mentioned the last time we were before the committee, has just secured 500 new jobs and is moving into our office in Inverness, where those new jobs are being created.

We have also approved funding for many new things. We are going to extend our export programme, which we have been running. We have extended our creative industries programme for a year and want to have the most ambitious creative industries strategy that we can have going forward. We have approved more funding for access to markets for the food and drink sector and the new entrepreneurship programme for the next three years, including an extension of our strategic partnership with the Massachusetts Institute of Technology. Things keep moving forward and we are trying to build on the good progress that we made last year and move things even further.

I will make two quick points about our written submission. I will not go through it in detail; I will just mention two points to note in it. First, in response to your request, we have tried to highlight how the work of Highlands and Islands Enterprise contributes to the national performance framework. We have included an appendix that tries to identify how we contribute to the purpose targets and the national outcomes.

14:15

I will make a couple of brief observations. Some things that we do obviously hit the national performance targets. You would expect our support for businesses and exporting and our encouragement of innovation and research and development to support the growth of productivity and gross domestic product. However, our community work makes a significant contribution to the purpose targets on cohesion, solidarity and population. Moreover, some of the things that we do cut across everything, such as encouraging the University of the Highlands and Islands and rolling out superfast broadband, which contribute to every single one of the purpose targets. I hope that we can give you a sense that what we do is directed by the Government's economic strategy and is having a direct impact on the national performance framework.

I will make a couple of comments about our 2014-15 budget, which we set out in our paper. The budget is of course subject to the HIE board, which has not yet seen it. However, we are pleased with the outcome, which will allow us to continue to be ambitious in the work that we focus on our four priorities, which we have done for the past two or three years. I think that that makes an awful lot of sense. We have an ambitious range of capital projects that we want to take forward in every part of the region.

In addition, we want to become a more efficient organisation. The committee will note that our running costs are forecast to reduce again next year, as they did this year. All of that will be supplemented by whatever other money we can get from whatever other source, whether it is from European Union funds for broadband or from other sources to take forward opportunities in the Highlands and Islands.

The Convener: Thank you. I invite Adrian Gillespie from Scottish Enterprise to make an opening statement.

Adrian Gillespie (Scottish Enterprise): Good afternoon, convener, members and clerks. I know that you have had a busy morning, so I will keep my opening remarks brief. Thank you for the opportunity to discuss Scottish Enterprise's budget and how we intend to use it most effectively to grow Scotland's economy and ensure our competitive position.

There are signs that the global recovery is under way. In August, euro zone business activity grew at its fastest rate for 26 months; forecasts for markets, including those of the US and Japan, are being revised up rather than down; and Scottish GDP grew by 1.2 per cent compared with the first quarter of last year, with positive labour market trends alongside that. However, there is no doubt

that the global economy is changing; we face more competition and competition from countries that have not dominated or been our peer competitors in the past.

To remain competitive, we need to maintain focus on growth and instil an international mindset into everything that we do. That is what our latest business plan, which was published earlier this year, is focused on. Our priorities continue to be international trade and investment, growth companies, innovation, renewables and the low carbon economy, with a focus on globally competitive growth companies, sectors and markets. That is where we believe we can make the biggest difference to the Scottish economy.

Last year's results demonstrate what we can achieve. Our account managed companies increased sales by over £1 billion last year with our support. We helped to secure £260 million of capital investment through regional selective assistance grants, safeguarding and securing over 4,700 jobs, and we supported more than 2,000 companies to target new overseas markets, an increase of more than 50 per cent on the previous year. We also attracted £500 million of inward investment in the past year, with Scotland continuing to be the number 1 location outside London.

We also know that the companies that we work with are doing better as a result of our support. The recently published independent evaluation of our account management programme showed that every £1 that we invested in account management generated over £5 for the Scottish economy. Companies benefiting from that include 119 companies in Ayrshire. In addition, £1 billion of gross value added to the Scottish economy occurred over the past few years as a result, and more than 15,000 jobs were created by account managed companies and their supply chains. By working intensively with those companies, we have been able to help unlock and enhance their global potential. The results that I have highlighted are encouraging, but we need to continue to focus relentlessly on growth opportunities for other companies and sectors as international competition intensifies.

Our priority remains delivering on the Government's economic strategy to ensure that Scotland's growth companies and sectors compete in international markets and that Scotland is home to an internationally competitive business environment. We look forward to working with our partners in that pursuit.

The Convener: Thank you. I invite Malcolm Roughead to speak now.

Malcolm Roughead (VisitScotland): Thank you, convener. I am delighted to be here and to

have the opportunity to talk a little bit more about tourism and its importance for economic growth in Scotland. As you will know, tourism and the visitor economy is worth £11 billion to the Scottish economy, according to the independent report by Deloitte.

VisitScotland has worked very hard with businesses the length and breadth of Scotland to open up international opportunities for businesses to take advantage of next year, when the spotlight falls firmly on Scotland. Last week, we had a conference in Stirling that was attended by over 250 businesses, and to say that the excitement there was palpable would be to do it an injustice.

Last week, there was also the Ryder cup year to go, and I read with interest the transcript of Thursday's debate in the Parliament. Dare I say that sometimes it was like a Mills and Boon novel? I share the passion and commitment to making the Ryder cup a huge success in 2014.

Today, the lucky recipients of the tickets to the Glasgow Commonwealth games will be notified. The interest that everyone in and outwith Scotland has demonstrated has been unprecedented. There were 2.3 million applications for the 1 million tickets that are available. It has been a fantastic way to get everyone to work together. Our emphasis is on sustainability, opportunity and partnership. It is only by working in partnership, not just with my colleagues here around the table but with the industry across the whole country, that we will fulfil the potential that tourism has for Scotland.

The Convener: Thank you, Mr Roughead. Members want to ask questions on quite a few subjects. I will kick off by asking HIE and Scottish Enterprise about overall budget allocations. According to the level 4 figures that we have just received from the Scottish Government, there is a 13 per cent reduction in Scottish Enterprise's resource budget and a 21 per cent reduction in Highlands and Islands Enterprise's resource budget. What will you do less of when less money comes in?

Alex Paterson: I will kick off and then let Forbes Duthie answer the question. I think you asked me that question in May, when I said that we will not stop doing anything. Overall, our grant in aid has increased. The balance within our grant in aid has moved to less resource and more capital, but the level of our resource budget is still sufficient to allow us to do what we want to do through that budget.

You will remember that in previous discussions we have always emphasised the fact that we have always moved resource into capital; we have always had that flexibility. The balance of the budget has changed, but we have an adequate

resource budget to fund activities that come out of that budget.

Forbes Duthie (Highlands and Islands Enterprise): The main focus in our budget is the grant-in-aid baseline. Our allocation for next year and for the year after is £10 million in cash, which is 20 per cent a year higher. From HIE's perspective, we have achieved a good settlement. As we have always said, we are very ambitious and we never turn down good projects. This will certainly help us to make progress towards the capital plans that we already have.

Iain Scott (Scottish Enterprise): You will see from Scottish Enterprise's submission that we acknowledge the reduction in the grant-in-aid baseline, which I think is approximately £11 million from the 2013-14 figure.

In addition to that, there will be a further contribution to the strategic forum savings—which we have talked about a number of times to the committee—of £6.5 million from last year. That £17.5 million that we are down will be a significant issue for us. However, our approach is that we really want to keep the overall level of expenditure up at approximately £336 million or £337 million next year, which will be similar to the level for this year.

We will consider the asset base that we have accrued through several investments that we have made in previous years. We have approximately £150 million of physical assets and property, and a similar level of £150 million in investment assets. This may not be the best time, in the economy, to dispose of or to realise money from those assets. We need therefore to make a tough choice either to hold on to those assets for another few years, which might realise more money for the public purse, or to realise what we can at the moment, which may not be the best that we could ever achieve, but which we could reinvest in the economy for an economic development outcome that would be much better for us. We will consider those choices and will maximise the amount that we can get back, which will fill the gap next year in order to maintain the overall level of expenditure.

The Convener: Thank you, Mr Scott. On that last point, SE's accounts for 2014-15 show a £26.3 million sum from further asset realisations. Is that what you are talking about when you say that you will sell off property?

Iain Scott: Yes. We state that in our submission. I do not think that it is in our accounts from last year. That is the line that we will find from the £300 million that we have available to us.

The Convener: Is this the best time to be selling off assets? Is it not just a bit of a fire sale, when the market is low?

Iain Scott: I admit that now is probably not the best time, but when will be the best time to sell the property assets? Will it be five years or 10 years from now? We believe that we can realise a decent return on some of our assets, which are generating income from the public purse now. We should get sufficient money back on those to allow us to invest in the economy and, overall, to get a much better return for the economy over the next five to 10 years than we would if we sat on the assets and reduced our expenditure level from what it needs to be.

The Convener: You are selling the family silver to fill a hole in your current account.

Iain Scott: No—we are turning round some investments that we have made over a number of years and putting what we make back into the economy.

The Convener: Thank you.

Before I bring other members in, I will come back to Alex Paterson. The final page of Highlands and Islands Enterprise's submission gives the figures for its total budget. HIE's total budget outturn for 2012-13 was £41.9 million and the draft forecast for 2014-15 is £28.3 million. That is a big drop.

Alex Paterson: Yes, and there is a good reason for that. You will remember that when we last appeared before the committee, we said that in the last financial year more than £20 million was given to us through shovel-ready-project funding. That was a bit of an anomaly. We invested the extra funds in premises such as Inverness campus, the enterprise park in Forres, Arnish and others. There was a spike as a result of shovel-ready-project funding in the previous financial year.

Mark McDonald (Aberdeen Donside): VisitScotland's submission highlights global figures for visitor numbers and investment generated. What work do you do below that on where visitors go when they come to Scotland? One point that was picked up with us this morning was that the perception is that the majority of visitors go to Edinburgh and the Highlands, for example. What evidence are you building up about where visitors go, so that you can see which areas need to be promoted more aggressively?

Malcolm Roughead: Thank you for the question. That is a valid point. We want to know exactly what is happening beyond the national level. Previous research was done under STEAM—the Scottish tourism economic activity monitor—but the problem with it was that the universe of respondents were from only the major urban areas; it did not pick up rural areas. We have, therefore, been working for the last two years with local authorities to upweight intercept

interviews across the whole country. That allows us over two years—we cannot do it annually, because it is quite an expensive exercise—to cover every local authority area, which will allow us to look at emerging trends.

Mark McDonald: I presume that within those trends you will be able to compare, for example, international tourism with domestic tourism. The perception is that certain areas, because they have an international profile, are more likely to attract the international visitor, so other areas should perhaps be more focused on attracting the domestic tourist.

Malcolm Roughead: That is right. Such information helps to target individual markets.

Mark McDonald: Next year we have two very significant sporting occasions coming up: the Ryder cup and the Commonwealth games. We are in Irvine, which is not a million miles away from Glasgow, where the Commonwealth games will be hosted. What plans does VisitScotland have to ensure that Irvine and other areas in the west of Scotland benefit from the tourism spin-offs that the Commonwealth games could generate?

Malcolm Roughead: I come back to my point about partnership; it is not only about what VisitScotland will do but about what we will do together with the industry. We have held, with local industry groups, a number of workshops for businesses throughout the country. We provide toolkits and ensure that information is on the website and available through other digital media.

We also look at the product strengths in each area. A good example is Argyll, where food and tourism suppliers are looking to tap into Glasgow—as I am sure you are aware, everybody is looking to tap into the potential that the Commonwealth games will provide. They are talking about going to Glasgow, demonstrating what they have, doing live demonstrations and allowing people to sample products. They want to get the information out there in advance, so that people who are coming to Glasgow for the games will be able to extend their stay or, if they are not planning to attend events on a day, to go out into the wider reaches of the country.

Likewise, there are groups around the country for the Ryder cup. In Inverness, the people up at Castle Stuart tell me that they have an exceptionally high level of bookings for the week of the Ryder cup. People will not come for the whole week, because they will want to take in the Ryder cup, but it offers an opportunity to get them up the A9 to play the courses in that region. Opportunities exist. We just need to ensure that businesses are aware of them because, from what has been said, it seems that we might need to do

better as far as outward communication is concerned.

14:30

Mark McDonald: There will be evidence on that from other places that have hosted major sporting events. Do you have any projections on the number of people who are likely to stay beyond, or to arrive prior to, the Commonwealth games or the Ryder cup, and on whose presence the surrounding communities could capitalise?

Malcolm Roughead: We will have a better idea when we know to whom the tickets have been allocated. We will be able to look at the postcodes and do some analysis to find out whether people are coming from near or far. That will allow us to use our extensive database—which has about 7 million entries—to do profiling. We will be able to look at people who are interested in specific activities. Organisations such as Ryder Cup Europe will send out regular communications to the lucky winners or purchasers of tickets, through which we will be able to feed messages directly to the people whom we know will be coming to those events.

Mark McDonald: I have a final question before my colleagues come in; I do not want to hog the questioning. This morning, VisitScotland was criticised for a lack of regional focus. I appreciate that you are a national agency, but how would you address that criticism? Is it one that you disagree with, or is it valid?

Malcolm Roughead: The criticism is clearly valid if people feel that way. That is why I am saying that we need to communicate better. We work in partnership with local authorities and with the area tourism partnerships, where they exist—they do not exist everywhere. It is difficult to ensure that we cover every person, but we need to do that. We cannot go around saying that tourism is everyone's business and then exclude people. I will take away from here that action of ensuring that our communication is enhanced.

Margaret McDougall (West Scotland) (Lab): I would like to stay with VisitScotland, if that is all right. I want to continue on the theme of how you roll out your business across Scotland. In the feedback that we got this morning, mention was made of the fact that you do not distinguish between towns and rural areas and that, in fact, you often miss out rural areas. For example, it was mentioned that you do not concentrate on what is available in South Ayrshire. What do you have to say about that?

Malcolm Roughead: We tend to have a visitor focus. We analyse what visitors want to see and do, and then we cross-match that with what is available across the country. Given that this year

is the year of natural Scotland, there could not be a better focus on rural areas the length and breadth of the country. I am delighted to report that, at this stage, anecdotal evidence indicates that the rural areas have done particularly well this year. The year of natural Scotland is a theme that most businesses can relate to, and it is one that is not defined by the narrow terminology of tourism—it extends to arts and crafts, food and drink and so on. That is why we keep talking about working in partnership. By working in partnership, we create a strong proposition that will appeal to the visitor to Scotland.

Margaret McDougall: The perception out there is that there is certainly a divide between urban and rural areas, so perhaps you could address that.

You have spoken about partnership. This morning, it has become clear that there is a feeling that the three agencies that are before us today do not have a good working partnership and do not seem to speak to one another very often. You should all be working together to support and improve the economy, but in fact you are sitting in your own little silos. Obviously, there is a crossover between the work that the three agencies do. Will you say how you work together and whether there is room for improvement?

Malcolm Roughead: I can certainly say from my experience that the working relationship between the agencies has never been better or closer. A lot of work has gone into that, because that criticism has been made in the past. We all carry out a lot of work in relation to the Scottish Tourism Alliance, which is the industry body. We support that body because we all believe firmly that the industry should lead on and take responsibility for its direction.

The work is not only in those areas; I will pass the question over to my colleagues for comments.

Adrian Gillespie: Malcolm Roughead has covered well the collaboration on tourism, and that spirit of collaboration carries across to all our activities. I could give many examples of where we work closely with HIE. For example, on renewable energy, we have been partners in the European Marine Energy Centre. We have partnered strongly in relation to companies that are based in the central belt such as Aquamarine Power and Pelamis Wave Power—both of which are testing devices in Orkney—to ensure that the technology development support and deployment support are joined up. Across each of the sectors that we are involved in, good work takes place on developing sector plans and the specific roles of each organisation. In some sectors, HIE leads, while Scottish Enterprise takes the leadership role in others, depending on the business space. That

spirit of collaboration exists and is evident across a number of the sectors that we are involved in.

Alex Paterson: I agree with Adrian Gillespie. I can give one or two specific examples on tourism, which might address the question. Not so long ago, we had a joint board meeting with VisitScotland in which specific consideration was given to how we can increase alignment of our efforts. All three agencies are involved in tourism intelligence Scotland, which does what it says on the tin—it is about getting intelligence from all three agencies out into industry in order to maximise its use. There is no point in our keeping it; we have to get it out there and share it.

Earlier, Malcolm Roughead and I were talking about the recent redevelopment of John o' Groats. If members have not been, I recommend it, because it is a stunning development that we have supported financially. Natural Retreats has done the development, but VisitScotland has been active in promotion. Another example is Campbeltown, where we have been working jointly.

Last year, we worked together on some webinars for tourism businesses on maximising the opportunity of the year of natural Scotland. In the future, we want to consider how our account managers and VisitScotland staff who work with businesses can more effectively join up our shared offering to businesses. There is always scope to improve collaboration, but there are tangible examples of where it happens.

Margaret McDougall: This morning, a few comments were made on efficiency and how well Scottish Enterprise represents the business sector. In particular, SMEs feel that you could do more to help them to access funding, with which they are all finding difficulty. Will you elaborate on what you are doing to help SMEs?

Adrian Gillespie: We are helping SMEs in two particular areas. One is helping them to work up propositions with which to approach banks and other funders. Last year, we helped 460 companies to be better prepared for accessing finance. We also finance a number of SMEs through our various funds through the Scottish Investment Bank. That could involve taking equity or lending money to SMEs.

We have examples in Ayrshire. Booth Welsh Automation Ltd in Stevenston, which employs 200 people, accessed the Scottish loan fund—it got £550,000. Brodie Engineering Ltd in Kilmarnock employs 57 people and we have helped it to access bank funding.

Sometimes such funding is in combination with our support—for example, we can put in regional selective assistance support beside the company's finances, which might bridge a gap that banks are

concerned about, in respect of risk. We work extremely closely with the banks locally on individual issues with account managed companies to see whether we can help either on preparation and presentation or on how we bring the overall funding package together.

Margaret McDougall: Is there concern about business expertise within SMEs? Should you be—or are you—doing something to increase that expertise?

Adrian Gillespie: When you get into conversations about access to finance, on the one hand is the view from banks, which say that they are very keen to lend to SMEs, while on the other hand we hear concern from SMEs about accessing that funding. That tells me that something is not quite working in the middle, so that is where we have focused our efforts. That is where the 460 companies that we helped last year have come from.

There are better ways of presenting SMEs' propositions to banks. We use investment specialists who work for the Scottish Investment Bank; they come in and advise SMEs on how to present their propositions, on where banks will see risk and on how to confront that in their presentations to banks. Also, the financing structures that SMEs bring to banks are sometimes not most appropriate for what they need. We can often go back and work with them on their overall approach to raising finance.

Margaret McDougall: It has been suggested that small businesses sometimes consist of just one person who cannot just take time out for training on business acumen or whatever. Could there be incubation units for training? Is that available?

Adrian Gillespie: Those services are available. There are various such incubators across the country.

Margaret McDougall: Where are they? There is travel time and everything else to consider.

Adrian Gillespie: The services are available across the country. We also have investment advisers who are mobile and work right across the country. For a small business, raising finance is a critical part of its business growth. The leaders of those businesses will need to become very conversant with raising finance, which is where our advice can pay off very substantially.

Yes—there are a lot of pressures, and that is where our advice can come in. We can provide advice and hands-on support on presenting to the banks. We can also work behind the scenes with the banks on individual business issues to see where we can help.

Margaret McDougall: Also, it was mentioned that you are not providing a transactional internet service and that it would be far better for small businesses if there was one transactional web page where they could show their businesses and from which they could sell. That is not available in Scotland.

Adrian Gillespie: Do you mean a combined e-commerce offering? Okay. I take that on board—we can consider whether we could facilitate that.

Margaret McDougall: Thank you. Also, we have not maximised what we could do as a country with regard to pulling down funding from the European Union. I know that HIE is quite proactive; will HIE and Scottish Enterprise tell me what is happening?

Alex Paterson: I will make two comments on the specifics of EU funding. First, Scotland does very well on structural funds; through the European regional development fund and the European social fund we have secured a lot over many years and have invested it wisely. New structural fund programmes are coming out and Scotland has fared well with regard to the structural fund settlement for 2014 to 2020.

Secondly, Scotland does okay in relation to other competitive EU funds, but there is a general view that Scotland could get more out of the competitive funds than we have done up to now.

It is a two-strand thing: we are quite good at structural funds and have a good settlement for Scotland over the next programme period, but we have more to go for in terms of competitive funds.

The Convener: That is interesting. Chic Brodie wants to come in with a follow-up question on that.

14:45

Chic Brodie: When I was in Brussels last week, I spoke to the directorate-general that is responsible for small businesses. How much involvement will SE and HIE have in COSME—the programme for the competitiveness of enterprises and SMEs? In the conversation that I had last week, you were not on the radar for the €700 million that is available for the loan guarantee fund, the €700 million for equity finance growth or the €900 million that has been transferred to the horizon 2020 programme. What participation will you have in those programmes?

Alex Paterson: I will be honest—I cannot talk about COSME. We are involved in the horizon programme. Big elements of European funds are coming into the Scottish Government, and it is looking at financial engineering instruments to address some of the issues that the programme is designed to address. Perhaps our Scottish Government colleagues are tapping into such

programmes with a view to compiling loan and equity funds for Scotland.

I can ask our guys who know the detail of COSME to give you that; I am not familiar with it.

Chic Brodie: I can give you it after the meeting, if you like.

Alex Paterson: Thank you.

Chic Brodie: HIE is a main interface, and so is SE, but we are not even on the radar for €1.4 billion, because we are not a member state—yet. According to the lists of interfaces, you are the main arms. We have four interfaces with Europe, but England has 88, so it is not surprising that we do not appear on the radar. After this meeting, I encourage you to look at what you will do with the funds that I mentioned, because it is ridiculous that our SMEs are not being contacted.

I can see that Iain Scott is desperate to answer.

The Convener: Of course, England is not a member state either, although it is accessing all that money and we are not.

Chic Brodie: When I talk to organisations, they say, “Go to the banks, because we want to use the enterprise finance guarantee.” When I talked to Scottish Enterprise about funding last year, it suggested that it is better to provide financial guarantees through the banks, but I know from personal experience that that is not the case.

Iain Scott: I would like to think that one of the four interfaces that you mentioned—Scotland Europa—is as valuable as at least 80 of the 88 English interfaces that you mentioned. Scotland Europa does a fantastic job for all the partners.

We talked earlier about partnership working. Scotland Europa represents the whole of Scotland in relation to all the funds and it has been extremely successful in getting core funding through Europe, as Alex Paterson said. Under the forerunner to horizon 2020—the seventh framework programme—it was very successful in getting money into companies directly rather than through the public sector.

Chic Brodie: I spent time with Scotland Europa—I was not going to talk to the directorate-general before I had done that. I say with all due respect that your view of what it is doing and my recent view of what it is doing are poles apart.

Iain Scott: We will feed that back to the people who work for us in Scotland Europa. It is very much alive to the funds. We understand that it has been concentrating on and influencing Europe on the direction of horizon 2020. It has certainly recognised the COSME fund and we believe that we will be able to have our fair share of that.

Chic Brodie: Let us work together to make that happen.

Iain Scott: That would be good.

Margaret McDougall: If an SME is in the pipeline and is already a managed account, it is there—we have talked about being on the radar—and it is in the programme. For how long will support be available for such companies? It looks as if that is indefinite. If there is no cut-off point, where is the opportunity for new companies? The concern is that not enough is being done to stimulate and support new companies that want to grow. You support growth companies. Should you not help start-up companies more? Are you saying that that is all down to business gateway? There are concerns about its performance, too.

Adrian Gillespie: We work with companies that have the ambition and the plans to grow, not just with those that are growing. The high-growth start-up unit in Scottish Enterprise very much helps start-ups with high-growth potential. That focuses on putting together the right executive and non-executive team, raising finance and pulling together equity. That work goes on.

We also work very closely with the business gateways. I was very pleased to see from the account management evaluation the amount of churn that has taken place in their portfolio over the past two years. The portfolio of companies has the potential to refresh itself every four or five years. That is a real shift compared with where we were perhaps seven or 10 years ago in account management. That approach relies on a strong pipeline of companies coming through from other sources but particularly the important source of the business gateways.

As I said, we work very closely with business gateways. I think that what you described were companies that are in the growth pipeline, so they are moving out of business gateway and into Scottish Enterprise. Although we have some—

Margaret McDougall: The particular one that I was talking to this morning has been with Scottish Enterprise for seven years. What happens? Are companies just there until they decide otherwise? Who decides how long they will be supported by Scottish Enterprise? Will you support them indefinitely?

Adrian Gillespie: Is that an account managed company?

Margaret McDougall: Yes.

Adrian Gillespie: We will work with a company as long as it has plans and ambitions to grow. We will work with many companies for a period of time, and then for two or three years we will step back from the relationship but still monitor their growth. The account management will reactivate if

another growth opportunity comes along, and we have many examples of that happening. It is therefore possible for a company to have a relationship with Scottish Enterprise for a long period of time, but the level of intensity with which we work with it will vary, depending on what challenges and opportunities it has.

Iain Scott: I will just add to what was said about the churn factor. Over the past year, we have increased the number of account managed companies by a net figure of 80, which means that 302 companies have joined the account management and 222 have left. I do not know where the particular one that Margaret McDougall is talking about fits into that, but there is obviously a significant churn year on year of companies getting account management support.

Margaret McDougall: Thanks for that. I want to go on to the question of equalities: what is being done to encourage women and minority groups into business? I would like all of you to respond to that.

Alex Paterson: We carry out equality assessments in all our programmes. Every approval paper that comes through contains an equalities section that every development officer and member of staff must complete. Every case has an equality assessment.

In the Highlands and Islands, there is an equalities network across different agencies that gets together to look at a range of equality issues. The gender pay gap has been exercising it quite a bit over recent years. We therefore take such matters forward at the multi-agency level.

At a programme level, there is, for example, the graduate programme called ScotGrad, which the First Minister relaunched last week. It has put 225 graduates into Highlands and Islands businesses as summer placements and one-year placements over the past few years. We look at that programme as an example to see how the male-female gender equality issue plays out.

As an organisation, we are aware of all six equalities dimensions. From the point of view of employment and of support to businesses and social enterprises, we ensure that those obligations are fulfilled.

Adrian Gillespie: Similarly, we carry out equalities assessments of all the projects that we undertake. We know that, of the companies that we work with, the number that are owned or principally run by females has increased from 26 to 35 per cent since 2010. Although there is more to be done, the figures certainly seem to be moving quickly in the right direction. We also work with Women's Enterprise Scotland to see whether there are any new initiatives that can increase that figure more quickly.

Margaret McDougall: I am glad that you said that there is more to be done, because we heard evidence two weeks ago from Professor Sara Carter that women find it more difficult to get into business and that women seem to be more debt averse. Have you looked at that phenomenon? What are you doing on that issue?

Adrian Gillespie: We have picked up the same sort of evidence. This year, Scottish Enterprise published for the first time what will be a biennial report on equalities. It is a matter that we take extremely seriously. The growth rate that I mentioned of 26 to 35 per cent in two years is fairly rapid, but we will continue to see what more can be done.

Our principal role will be to stimulate growth in the economy that can be accessed by anyone, and that is what we are aiming to do.

Iain Scott: We have supported the Investing Women syndicate via our involvement with Linc Scotland, which has been providing learning support to that group specifically in the area of accessing finance. We are working with partners to ensure that they get all the information that they require.

Margaret McDougall: I have one more question. The issue was raised again this morning that Scottish Enterprise does not have a rural dimension, so there is a lack of support in rural areas. Can you comment on that?

Adrian Gillespie: Yes, I can. Of the 2,000 companies that we account manage, 420 are in rural areas and we have invested £25 million in rural companies. We take rural enterprise extremely seriously.

I am pleased to see the amount of regional engagement that we have in our Selkirk and Dumfries offices, as it is important that Scottish Enterprise is active in those communities. We work closely with the two largest private sector employers in those towns—Spark Energy in Selkirk and DuPont Teijin Films in Dumfries—which are extremely important to local employment. In the case of Selkirk, we are the landlord; in the case of Dumfries, we own the neighbouring property.

We engage with rural enterprise through property ownership, account management, networks and the rural leadership programme. Three hundred and fifty people have now gone through the rural leadership programme, and we have received consistently positive feedback about the impact that that has on rural companies' progress. We have another 45 people going through the programme this year.

I would say that we are extremely engaged in rural enterprise and that, working with our local

authority partners, we have a very effective partnership.

The Convener: I am conscious of the fact that our school visitors have to leave at 3 o'clock. Rather than interrupt Mike MacKenzie in full flow, we will have a brief suspension to allow them to leave. I thank them very much for coming.

14:57

Meeting suspended.

14:58

On resuming—

The Convener: I thank everyone for their forbearance. I thought that it was easier to suspend the meeting briefly than to put up with the inevitable noise from the back of the room.

Mike MacKenzie: I was interested to hear that HIE and Scottish Enterprise are following last year's direction in the transfer of resource to capital. The conventional wisdom is that, in these still difficult economic times, there is a bigger multiplier effect with capital spending, and there is a clear need to continue to support the economy. However, some recent witnesses have suggested to the committee that that may not hold true because of what they have called leakage. They have claimed that leakage from the Scottish economy is greater with capital spending than it might be with resource spending. Would you care to comment on leakage and whether you think that the view expressed by certain witnesses is correct?

Adrian Gillespie: The majority of our business infrastructure investment—in other words, the funds that we invest in capital for businesses through, say, the bioquarter in Edinburgh and Fife energy park—is strategically important to and plays a critical role in the development of a sector. Those decisions are all about bringing in inward investment and giving the companies we work with the opportunity to be more effective in international trade. From my point of view, that investment is strategically placed to benefit our sectors and to grow Scotland's economy.

We also invest in support for our companies to develop infrastructure, whether that be through capital investment in plant and machinery or whatever. This is all about bringing more investment into the Scottish economy.

Mike MacKenzie: Do you therefore refute the view that there is a higher multiplier with resource spending and that it captures more benefit in Scotland?

Adrian Gillespie: I am sorry. Do I refute the view that it gives—

Mike MacKenzie: That resource spending is a better way of tackling economic difficulties than capital spending.

Adrian Gillespie: We need a mix. As I have said, our choices are based on what is important for a sector to grow and where we can make the biggest difference to that sector's growth. That is why we make these investments.

Mike MacKenzie: Has your decision to transfer from revenue to capital arisen simply from a bottom-up perspective and from looking at what is required at individual business level, or from a belief that capital spending is going to achieve more bang for your buck?

Adrian Gillespie: There is no simple answer to that. The position varies from sector to sector and, indeed, varies substantially with regard to companies' needs, which is why we are making this kind of investment. An aggregation of the demand dictates how we spend our money.

I will bring in my colleague Iain Scott at this point.

Iain Scott: Adrian Gillespie is absolutely right. The multiplier effect of capital expenditure is probably a secondary factor in how we plan our business. The first consideration is what needs to be done to make the economy grow. For example, our investment in renewables and our port infrastructure work are all about creating a renewables industry that will give us a huge return. It is good that we can invest in capital and we believe that we get a good multiplier from it, but the overriding determinant is not whether we spend on capital or revenue but the return that we get, no matter which we go for.

Mike MacKenzie: So the transfer from resource to capital over the past two to three years has happened because of an aggregate of lower-level decisions rather than as a result of an actual policy.

Iain Scott: I reiterate that we are not ignoring the matter, but the issue itself is secondary.

Alex Paterson: We have always had the option to transfer from resource to capital and, as long as I can remember, we have done so every year. Our resource budget funds a lot of our business support programmes and other vital things but the fact is that, in our region, we have to invest in infrastructure. It is harder to quantify the short-term benefits, but if we do not put in superfast broadband, establish an enterprise park in Forres, open up in Arnish, do something with wind towers in Campbeltown or put units up in Hatston in Orkney, the longer-term benefits will not materialise.

The critical point is that every capital investment that we make is not just something that we would

like to do; it is linked to a strategic priority, sectoral development or inward investment opportunity. The two go hand in hand. However, I do not want to give the impression that we are sacrificing what we are doing in resource for the sake of capital. We have sufficient money to do both, but the increased focus on capital simply reflects the ability that we have had for many years now to switch revenue to capital. We do not have the flexibility to move money back the other way.

Mike MacKenzie: Thank you very much. I think we have probably tortured that subject enough.

There seems to be a slow-down in anticipated funding for renewables. Could you give a bit of the background to the decisions in anticipation of that slow-down? I am concerned about that.

Adrian Gillespie: Yes. The budget this year reflects the fact that, for example, the renewable energy investment fund is taking longer to make the investments than was originally foreseen. That reflects the wider market. There has been a review of the energy markets in the United Kingdom. The ambition that was set out for offshore renewables at the launch of the round 3 offshore wind farms at the beginning of 2010 seems to have been reduced somewhat, according to the latest information from the Department for Energy and Climate Change. That uncertainty about the ambition has slowed down investment. We hear from investors that the ambition in Scotland is very clear and well recognised, and I think that that is part of the reason for the success of the inward investment into Scotland from some of the major renewables manufacturers.

Mike MacKenzie: The reason for that slow-down is the energy market reform in the UK Government.

Adrian Gillespie: Our companies tell us that reform is a major factor for their plans and their timescale.

Mike MacKenzie: How do you feel that Mr Miliband's statement about capping energy prices will affect that situation? I think that it is very relevant.

Adrian Gillespie: I cannot see that it will directly affect any of the companies with which we are working on inward investment. That is more of a domestic policy and not one on which we would comment.

Mike MacKenzie: I can understand that you do not want to comment on it, and I will take it that your reluctance suggests that there is additional uncertainty.

The Convener: Before we leave this question of innovation and R and D, I would like to ask a supplementary question—unless you are sticking

with the question of renewables and investment, Mike.

Mike MacKenzie: By all means.

The Convener: Far be it from me to mention that there might be other uncertainties on the horizon, but we will leave that sticking to the wall for the time being.

Chic Brodie: Yes, I am not sure about a European referendum.

The Convener: The spending line on innovation R and D support to which Mr MacKenzie refers shows a 35 per cent reduction, as opposed to what was in the draft plan. That is pretty substantial. Given that we know that, historically, Scotland has a low rate of business R and D compared with the Organisation for Economic Co-operation and Development average and that we need to catch up in that area, should Scottish Enterprise not be fleet of foot enough to say that if there is a shortfall in renewable energy, we can spend that money in another area to support R and D?

Adrian Gillespie: I suspect that you know that the renewable energy investment fund originated in the fossil fuel levy. The ambition is that we use that fund strategically to make sure that Scotland makes the most out of the renewable energy opportunity. We believe that opportunity is still there—we have already addressed the fact that it is taking a bit longer but it is there. That funding will be required, for example to give the wave and tidal sectors the benefit of investment over the next few years as we move to deployment. I do not think that the funding should be reallocated. It will be required and if we use it for something else, it will not be there when the renewable energy companies require it.

Alex Paterson: The innovation issue is very much to the point. We are all involved in innovation activities that are worth mentioning, such as the innovation centres, which come through a partnership between us, Scottish Enterprise and the Scottish Further and Higher Education Funding Council. There are five now and others to come. These are new approaches to innovation at the sectoral level. We have a project with all of Scotland's universities on how to get university activity in the Highlands and Islands. Quite soon, you will also see a single knowledge transfer office announcement. Several things are happening in respect of innovation.

I would like to touch on Mr MacKenzie's point about energy and put a very parochial Highlands and Islands spin on it. There is uncertainty in the marketplace and that affects some decisions on energy because they involve many millions of pounds, so we need to get them right. From a Highlands and Islands perspective, we need clarity

on electricity market reform and it is critical that the intergovernmental working group gets a good policy solution. If we do not get that, developer confidence will take an even bigger hit, which means that it will become difficult to make the case for grid infrastructure upgrading and interconnectors to our islands stack up.

You have not asked me this question, but if you were to ask me what the biggest challenge is for the Highlands and Islands at the moment, I would say that it is getting the environment right so that the opportunities of wave, tidal and wind renewable energy can be realised. That requires a combination of pricing, confidence, grid enablement and the provision of interconnectors to our islands. At the moment, the ducks are not aligned.

Mike MacKenzie: I am grateful to you for that clarification.

On a related theme, you mentioned the roll-out of superfast broadband, which is welcome news. However, many of us feel that there will still be areas of the Highlands and Islands for which it will be difficult to provide that. Do you have any contingency plans for areas that, despite the big expenditure on fibre optics, might still not benefit from better-quality broadband?

Alex Paterson: We should bear in mind that the aspiration is 100 per cent coverage. The programme that we have embarked on involves a roll-out of broadband to at least 84 per cent of the population, although it is to be hoped that we will go beyond that. We should bear in mind, too, that on some of our islands in Orkney, Shetland and the Western Isles we are starting from zero as regards commercial deployment. Across the Highlands and Islands in general, the level is about 20 per cent and, as you will know, that 20 per cent will be in the inner Moray Firth. We will be moving from a position of virtually no commercial roll-out to a level of 84 per cent, but we want to go beyond that.

There are two or three things to mention in that regard. First, in the contract that we signed with BT, there is an innovation fund. We need technologies that are not yet commercially available to get out to some of these far-flung parts, which must be our aim. Secondly, we are managing and running community broadband Scotland, which is up and running. Its focus is on getting to those places that the fibre solution will not get to. We are already talking to 43 communities across Scotland as part of that. The first awards of projects have been made, and staff are working on that throughout Scotland. The aim is to reach the missing bits.

The present programme runs up to 2016. More funds are available from the UK Government. I

specifically asked it about that a few weeks ago. It has made additional funds available, some of which we would like to get our hands on. In addition, we are talking to all our local authorities. The programme that we have designed for the Highlands and Islands involves no local authority contributions; it is different from the model for the rest of Scotland. If we can guarantee 84 per cent coverage across the Highlands and Islands, there is scope for us to push that further through additional top-ups for new technologies and so on.

The aspiration of achieving 100 per cent coverage by 2020 is the Government's target. We are talking about a huge step forward from, in many cases, zero coverage and, at regional level, a maximum level of 21 per cent to a level of more than 84 per cent. The letter that I get most often is from people who say, "I live at number such and such. When will I get broadband?" We have done all the survey work. We are laying 1,200km of fibre—800km on land and 400km under the sea, which involves 20 different crossings. We know where the cables will land. All that is in place. Next month—in October—and on a quarterly basis thereafter, we will announce the roll-out programme. The places that need huge amounts of fibre to be laid, including the laying of cables to islands, will have those laid in the summer of 2014. Those bits of the region that have good infrastructure at the moment will light up more quickly.

Mike MacKenzie: That is good news, I think.

My final question—

The Convener: Before we leave broadband, Margaret McDougall has a supplementary.

Margaret McDougall: I know that Alex Paterson is a local man, so I am sure that he will not have forgotten about Arran. Is Arran included in the programme? Shetland, Orkney and the Western Isles have been mentioned, but we should include the islands off the coast of North Ayrshire.

Alex Paterson: All three—Arran and the Cumbraes—are included. As came up when you questioned me in Edinburgh, we may only have a very small part of North Ayrshire in our area, but it is vital. There will be a subsea cable to Arran.

15:15

Margaret McDougall: Last year, when I met Alex Neil, the then Cabinet Secretary for Infrastructure and Capital Investment, he said that the hardest-to-reach areas would be targeted first, because obviously better gains are to be had from that. Is that still the case? Where is Arran in the programme? You are talking about up to 2016, I think.

Alex Paterson: I am not sure whether this is breaking protocol, but I have a map here that I can give to the committee.

The Convener: It is slightly unorthodox, but I will allow it.

Alex Paterson: The map shows the situation before and after, and you will see that there is a line that joins up to Arran. To draw an analogy, one does not build a house without building the foundations first, and that is what we are having to do. So the work on subsea cables and the fibre backbone up to the west Highlands is laying the foundations. We have to start with the skeleton and build out from there, and that is what our programme is designed to do. Once we have the skeleton, it will be easier to put the bits on the ends to the more far-flung parts of the region.

Margaret McDougall: Are you dealing with the hard-to-reach parts first, because they are the ones where there is most benefit?

Alex Paterson: Well, we are getting there. However, what I am saying is that, if one wants to build a road, one does not start at the far end and build a wee bit—one builds the whole road out the way. The map shows that we are getting out to the most remote areas, and that is undoubtedly the aspiration, but the model is to build from the core out and to build the infrastructure to enable the bits at the far end to be joined. So we are not starting from the outside and working in, as that would cost an absolute fortune. We are starting by laying the foundation, as shown on the map, and then we will add to it.

Margaret McDougall: Yes, but the geographic spread is huge, so if you are doing subsea cabling, you are starting from the mainland in whichever case.

Alex Paterson: Absolutely. Let me answer it in another way. If we started from the outside in and had lots of quirky technologies, the challenge for consumers would be that they would have something so quirky that the internet service providers—the people who provide the service—would not use it. We have a solution in the Western Isles called connected communities, but there is only one ISP. We have to have a technology and ways of accessing it that the marketplace will recognise. Through what we are doing, everywhere in the Highlands and Islands will have the same access and people will have choice, with prices that are comparable to those anywhere in the rest of the UK.

Margaret McDougall: So urban areas will be targeted first.

Alex Paterson: No—the map shows what we are doing. The programme is deliberately not just in urban areas. It gets out to many rural and

remote areas and to the island communities. It is not an urban-only programme. It was clear right from the start that we wanted the programme to go out as far as possible. As I said, at least 84 per cent of the Highlands and Islands will be covered by the project. To answer Mike MacKenzie's point, we have the innovation fund in our contract and the community broadband Scotland initiative is already working with communities to go further. So the programme is very much not an urban one; it is a programme for the whole of the Highlands and Islands. However, the model that we are using is to build out.

Mike MacKenzie: My final question is for Scottish Enterprise. Alex Paterson outlined that Highlands and Islands Enterprise, perhaps because of its slightly broader remit, can contribute to the national performance framework targets. Part of the committee's focus is on how the budget helps to achieve those targets. Can you explain how Scottish Enterprise helps us to achieve those outcomes?

Iain Scott: I direct you to our business plan for last year, which has a diagram similar to the one that Alex Paterson and his team put in their written submission. We did not reiterate that in our submission, but the business plan clearly outlines it.

Adrian Gillespie might want to mention some of the specifics.

Adrian Gillespie: The four outcomes on which we make the biggest contribution are those on GVA and GDP growth, participation, exports and R and D spend. Obviously, in those areas, we squarely have an impact through our programmes and priorities. We have outlined in our business plan where we can make a difference.

Mike MacKenzie: That is on your radar, so to speak.

Adrian Gillespie: Absolutely.

Chic Brodie: On Malcolm Roughead's earlier comment about Mills and Boon, I assure him that my passion for golf is replicated in my passion for my country and for this area.

A key issue, which we have discussed before—I asked a question about it in the chamber last week—is the aviation strategy for Scotland. How does that impact on your businesses? Do we lack one or should there be one? Malcolm Roughead will know what the next question is going to be.

Malcolm Roughead: I will allow the others to go first.

Chic Brodie: What lobbying are you doing with the Government overall to facilitate the export via air activities that are essential if you are to achieve your objectives?

Alex Paterson: I will make a couple of comments. You will be aware that the Scottish Government is developing a new aviation strategy with two main prongs to it. The first of those is point-to-point services, with more direct routes from Scotland to more distant centres overseas. The second prong is better use of hubs. With my Highlands and Islands hat on, I would say that air connectivity is crucial. Since last we met, we have been through the slight scare of the withdrawal of Flybe services from Inverness to London. That required a real combined effort. Malcolm Roughead, the chief executive of Highlands and Islands Airports Ltd and I participated in a conference call to work out how to address that, and business groups got together as well.

Chic Brodie: The public service obligation situation at HIAL airports must be very concerning.

Alex Paterson: Yes, PSO was an option but we have a commercial solution through easyJet, and we now have a direct route to Gatwick, which is vital. The danger of not having a flight to London from Inverness is the perception that the region is not open for business. It is absolutely critical.

Chic Brodie: What about Stornoway, Barra and Oban? If you are going to achieve your objectives, such places must be in your conversations.

Alex Paterson: Yes, absolutely. We need the flights within the Highlands and Islands and the connections to London. Along with HIAL, we have put a fair amount of investment into the Amsterdam route and would like that service to run twice daily. Air connectivity is vital to the Highlands and Islands. We are not going to get direct flights from Inverness to Beijing, but hub airports—whether London, Amsterdam or Düsseldorf—are critical to the strategy for the Highlands and Islands.

Adrian Gillespie: International air connectivity is crucial to exports and to achieving our export targets. There is very much a team Scotland approach to finding the best route for the available funds to develop air routes, and there has been some success. For instance, the flights to Dubai and the recently announced additional North American route are extremely helpful to our international trade, and the businesses that we work with have highlighted the fact that they would like to see Scotland's infrastructure improved in that way.

Chic Brodie: I understand that but, although Alex Paterson has said that we have an aviation strategy, that is not the answer that I got from the Minister for Transport and Veterans last week. You have identified individual aspects, but there must be an overall international thrust. Specifically, I am talking about the benefits and the skills that this area can bring. My other

passion—well, I have several—is Prestwick airport. We hope that there will be 200 new jobs there this week through the recycling of aeroplanes. Skills are also needed in maintenance, repairs, overhaul and what have you. What are you doing to promote that kind of activity given the skills that exist in Ayrshire and the south-west of Scotland?

Malcolm Roughead: The specific issue around Prestwick is pretty well known. We must do everything that we can to ensure that the investment goes into Prestwick and that its strategic access point is utilised. It has a fantastic runway that can cope with the aircraft that others cannot cope with. However, there is no doubt that it needs investment—anyone would agree with that. All the agencies are working together to come up with a solution to make the airport viable into the future.

Chic Brodie: We hope that we will know today whether it has been sold, but that is by the by. The reason why I use Prestwick airport as an example—apart from my passion for it—is that, as was mentioned earlier, the south of Scotland sometimes does not get the investment attention that it might. You gave us some figures and mentioned two companies, one in Selkirk and one in Dumfries, but when I look at the statistics—as I have done, through the business gateway and Scottish Enterprise—I see that we are lagging way behind. Do you have any plans to inject further attention and investment into what could be high-growth companies in the south of Scotland?

Adrian Gillespie: Yes. In particular, we own two properties in Dumfries that we intend to develop for business use. One of the major pieces of feedback that we get from companies in that part of the world is that it is difficult to get access to land for business use. We have been heavily involved in that aspect in that part of the world. Our role is to create the right environment, to give businesses with the potential to grow support and to focus relentlessly on opportunities for growth. We very much want to provide the environment for growth and to help companies with potential to achieve it.

Chic Brodie: Do not get me wrong—I am a great supporter of all the enterprise organisations. Do not be confused by my perhaps robust questioning, but my colleagues and I must look after the interests of the people we were elected to represent. I understand what you are saying, but the facts are chieftains that winna ding: the south and south-west of Scotland are definitely missing out on some significant opportunities. I would ask that that be looked at.

One of the reasons why I asked my question is because we talked previously about Scottish Enterprise's intent to increase the number of

account managed companies by 400 over the 2012 to 2015 period. However, in the first of those three years, you have added 80, which leaves 320 to be added over the next two years. It ain't gonna happen, is it?

Adrian Gillespie: On the existing figure and what it would take for us to increase it, I would point to the not particularly easy economic context and the fact that we will target increasing the number of account managed companies in the future. I think that our target is achievable, and it certainly remains our intention to deliver it. The companies that I mentioned before are good examples of ones that can have a massive impact on the local community.

Chic Brodie: I have seven where we could have added 3,000 jobs. Thankfully, because of the representation that you have in parliamentary terms, I am sure that we will see our way to getting a large number of such jobs. However, we cannot look at just the existing companies.

I want to turn to Malcolm Roughead and Ken Neilson. We have a great year coming up in terms of major events, but we must ensure that businesses are resilient thereafter. Are we paying too much attention to the Ryder cup and the Commonwealth games, if that is possible? What are we doing to secure the underbelly, if you like—the foundation of the tourism industry in Scotland?

Malcolm Roughead: That is a very valid question, because there is a danger of focusing too much on the iconic events. However, we have always said that 2014 should be a catalyst for further change. In fact, that has come through in the Scottish Tourism Alliance looking out towards 2020. A number of actions are already in place on the legacy of the 2014 events. One of the goals is to position Scotland very much as a major events destination. In 2015, five world-class events will come to Scotland, including the world gymnastics event, the world orienteering championships and swimming championships. We have used the umbrella of the Commonwealth games and the Ryder cup to go out there and secure more business.

There has been a lot of learning about how we go about doing that. We started from scratch about 10 years ago, which is not that long ago, when EventScotland was set up for the specific purpose of positioning Scotland as the perfect stage for events. EventScotland is consulting the industry on how we look at the next 10 years and what skill sets will be required. Lots of things need to be built into that, for example how we build on current levels of investment and skills. We must also look at the facilities. We have had a real fillip from some of the arenas that have come into play for the Commonwealth games. For example, we can look at how we can use the SSE Hydro and

build on its opportunities. The business tourism bid fund has allowed us to secure conferences all the way through to 2022. A lot of work is looking to the future and not resting on the laurels of 2014, because to do that would be the biggest mistake that we could make.

15:30

Chic Brodie: A week past Sunday, I was going through Brussels airport and I saw no mention of Scotland. It might have been mentioned somewhere, but I did not see it. What is the balance between domestic and international marketing in your marketing activity?

Malcolm Roughead: At the moment, the domestic market accounts for 85 per cent of visitor footfall and about 65 per cent of value, while international visitors make up 15 per cent of footfall and 35 per cent of value. It is not that both sets of visitors spend vastly different amounts per day, but that international visitors stay in the country longer.

I always liken this to having a portfolio with some items that you invest in for the longer term, some that you consider for short-term growth and some that are not performing as well as you would like. We need to be fleet of foot and put money into the markets where we think we will get the best return.

Chic Brodie: You are about to produce a television advertisement. Where will that be shown?

Malcolm Roughead: We are planning to show it in the UK and the long-haul markets of Canada, the United States, Australia and, potentially, New Zealand.

Chic Brodie: My next question is for Alex Paterson. Why has the population in the Highlands gone up?

Alex Paterson: Because it is the best place to work, to study and to invest in. According to the last census, the population in the Highlands and Islands has grown by 7 and a bit per cent in every local authority area bar one. In-migration is part of that, but it is not the only aspect. Jobs have been created, employment rates in the Highlands and Islands are higher than those in the rest of Scotland, unemployment is low and there are job opportunities. It is a combination of factors.

Chic Brodie: It is estimated that we will need 60,000 engineers over the next eight years. Considering the demography of the country, the growth in renewables and what is happening in the oil and gas sector, do you have any idea where those engineers will come from?

Adrian Gillespie: Six hundred of them will come from the students going through Kilmarnock college this year. I spoke to the principal of the college last week and was staggered when I heard that figure.

Chic Brodie: That is great. The Ayrshire colleges are fabulous.

Adrian Gillespie: There are also plans to increase that figure by 10 per cent next year, which I think is fantastic.

This will require a mix of public and private sector investment. We need more investment by the oil and gas sector in the skills that it will need for its own future, but that issue has very much been recognised by the oil and gas industry leadership group and there have been some moves to address it. Alex Paterson is best placed to talk about what has happened at Nigg, for example, and there are other such examples around the country. Nevertheless, it is a big challenge that will require a mix of targeted investment.

There are also opportunities for cities such as Dundee, from where a lot of people already travel to Aberdeen to benefit from the opportunities presented by oil and gas. We need to look around the country to see where those skills exist or can be generated and then invest in a very focused way to make them happen.

Chic Brodie: During the summer recess, I visited Queen Margaret University to see what it is doing in the hospitality and food and drink sectors. We will probably need at least 10,000 people in those sectors. Can we cope with all the events that are coming up?

Malcolm Roughead: It is a challenge that I would love to have. The fact is that a lot of good work is going on out there. On Friday, for example, I was up in Wick and was delighted to learn that John o' Groats has become the first Scottish destination to hold the WorldHost certificate. If the interest and enthusiasm demonstrated in that small place can be replicated in the rest of the country, I do not think that we will have a problem with attracting people into the industry.

Great strides have been made in making the hospitality industry a career, rather than something that you do because you cannot do anything else. That is beginning to take shape and, working with my colleagues here in the industry leadership groups, there is a focus on skills development. However, the focus is on the broader skills because we need sales and marketing people as much as we need people working behind bars and in restaurants.

Chic Brodie: Absolutely. I am sure that we will achieve all that. I have one last question. I will not

go back to my passions but, as convener of the cross-party group on social enterprises, I am intrigued to know exactly what focus your organisations are putting on social enterprises. My experience to date is that some social enterprises are totally unqualified. I do not mean that they are not qualified to do a job; I mean that we do not know who they are or where they are or how they get their money. We do not know how, where or when they get business support and of course they also require funding. Can you share your views on the route forward for social enterprises?

Alex Paterson: I will kick off first. I think that you asked me something similar the last time I spoke to the committee and my reply was that we handle and work with social enterprises on exactly the same basis as we do with businesses and we consider them to be of the same importance. I cannot remember the figure, but certainly well over 100 of our account management portfolio are social enterprises. Particularly in some of our more remote areas they are vital, but if you come into the centre of Inverness I can take you to visit Calman Trust—which is building a hotel on Inverness campus—and many other social enterprises. Social enterprises are vital parts of the infrastructure as regards employment, taking on young people, employability skills and so on.

Chic Brodie: I understand that. Those social enterprises are in the tent—we know about them. However, a proliferation of social enterprises out there are getting public sector funding and nobody seems to know where they are.

Alex Paterson: We do. We did a report last year on social enterprises in the Highlands and Islands so we know exactly where they are. After our last meeting, we wrote to you on 6 June, because you asked me on what basis we deal with social enterprises—what our qualification criteria are. We set out five different criteria in that letter. We are working very closely with social enterprises and we are providing support to social enterprises across the whole of the Highlands and Islands as we would provide support to businesses. It is integral to what we do. Our priority in our operating plan—which you have probably seen—is supporting businesses and social enterprises to shape and realise their growth plans. We deliberately included social enterprises as well as businesses.

Chic Brodie: I did get your letter, thank you.

Adrian Gillespie: We account manage 30 social enterprises. We help 150 more widely than account management. Social enterprises by their nature are often in the most deprived areas, therefore where we have a social enterprise with the ambition to grow, we will help them as much as we can; the impact of that growth will be felt in those areas—absolutely. Our help will be around

the growth agenda and our role will be to work with social enterprises on where their growth opportunities exist.

Malcolm Roughead: From our perspective, the channel tends to be through the destination management organisations that exist across the country. Again, that is about getting people to work in partnership and align themselves to the overall ambitions. They can come through a number of mechanisms such as the national events funding, homecoming funding or the VisitScotland growth fund.

Sometimes the issue is not, “Do you know where the money is going and where the social enterprises are?” It is, “If they are not engaging with us, where are they and how do we engage with them?” That is probably the biggest challenge that we have.

Chic Brodie: Okay. Thank you.

The Convener: I will wrap up. Scottish Enterprise and HIE mention renewables in their submissions. How many jobs are there in the renewables industry in Scotland today?

Adrian Gillespie: There are about 1,100 jobs—sorry, about 10,000 jobs, and that figure is growing.

The Convener: There are 10,000 jobs?

Adrian Gillespie: I think that the figure is about 11,000.

The Convener: The figure is 11,000—right. Mr Paterson, any advance on 11,000?

Alex Paterson: I have the figure in my papers somewhere but I cannot find it just now. We did a bit of work recently and it showed that more than 15,000 people are employed in the energy sector in the Highlands and Islands. The number of people who are employed in renewables is a subset of that figure. I can get the figure for you.

The Convener: I asked the question because, as you might be aware, the Audit Scotland report on renewable energy that came out the week before last said that the 11,000 figure, which is widely quoted—not least by Scottish Government ministers—cannot be verified. Has either agency done any verification of that figure?

Adrian Gillespie: We would not tend to verify such a figure if the work had already been done. I know that we contributed to the work.

The Convener: I think the point that Audit Scotland made is that the work has not been done.

Adrian Gillespie: We contributed to that piece of work in terms of the jobs that we are aware of—

through account management, for example—so yes, we have been involved in those figures.

Chic Brodie: It might be worth while to have a conversation with Scottish Renewables.

The Convener: Of course, we believe everything that it says.

All three agencies are contributing to the strategic forum, which is due to make savings of £25 million this year and of £40 million next year and the year after. What share of the £40 million will you have to contribute?

Malcolm Roughead: We are looking at about £5 million per annum.

Iain Scott: We said in our submission that our contribution is £17.3 million.

Forbes Duthie: The figures are in our submission—they are £2 million this year and £3.2 million next year.

The Convener: How will you make those savings?

Malcolm Roughead: We discussed that a couple of years ago when we looked at efficiencies, at the right size of the organisation and at stripping out activities that do not contribute to the economic growth that we want to achieve. We have carried on with that. A lot of that involves working more and more in partnership—I go back to that word. That allows the budget to stretch further and still achieve exactly what we are trying to do.

Just as we are looking at a new events strategy, we are looking at the next five to 10 years for VisitScotland. We will take the numbers to the board at our board strategy away day.

The Convener: The figure of £17 million is a chunky number.

Iain Scott: It is a big number. As I outlined earlier, we will look at raising additional income from our assets, which will make a significant contribution. However, that is not all that we are doing. Every year that the Government has set us the 3 per cent efficiency target, we have surpassed it. That goes some way towards the overall figure.

We have made procurement savings, which have been successful. We have got about £4 million a year over the past two years from that. On facilities management and estates, we have done a lot of co-location work in the past few years and more of that is ahead—that will involve our partners who are sitting round the table and Skills Development Scotland. In some of that work, we save £50,000, £100,000 or £200,000 at a time.

We have had a successful shared information and communication technology service with Highlands and Islands Enterprise and with Skills Development Scotland for the past three or four years. That has saved us about £2 million a year.

Those initiatives will all contribute to the figure, and the rest will be made up by the asset sales that we talked about.

Forbes Duthie: It is not surprising that the situation in HIE is not dissimilar. Every year, we have set a target for delivering income over and above our grant in aid, so that our operating costs are covered by additional income. That remains the situation that we are trying to deliver.

In the past three years, we have made significant savings through selective voluntary severance schemes and suchlike. Those savings are recurring, so they have helped to reduce our block B costs. In multi-occupancy buildings throughout the Highlands, we have co-location with SDS, VisitScotland and other agencies, such as Scottish Natural Heritage. As Iain Scott said, the Atos contract has been successful for us. It has probably saved about £300,000, but that is a good contribution to our savings. A lot of initiatives such as that add up to the required value.

Chic Brodie: I do not know whether to keep running with the Atos contract.

What conversations have you had with the Scottish Futures Trust about buildings for disposal? I have had a conversation with it about helping the councils down here to dispose of their assets; it appears that a programme could be developed to upgrade buildings and—we hope—to sell them.

Iain Scott: About four or five months ago, the Scottish Futures Trust came into our building for a meeting that I was at along with the director who is in charge of facilities, who shared information on all our properties. We have had support from the trust on some co-location work that we have done. We are working closely with it to get the best value out of public sector assets.

Chic Brodie: That is excellent.

Ken Neilson (VisitScotland): VisitScotland has only one significant owned asset, which is in Oban. We are looking at what we can do with that.

15:45

Forbes Duthie: Likewise, we have had meetings with the Scottish Futures Trust about opportunities. Indeed, we are looking at one at the moment. As the committee will know, Capgemini's 500 new jobs will be based in our premises, so we are required to move out. We are looking at a joint venture with UHI on a campus site to provide

accommodation for us and UHI with R & D facilities and suchlike. That will also help to reduce our operating costs.

The Convener: My final question is for Scottish Enterprise. I was a little bit concerned by a story in the *Sunday Herald* yesterday about a £50,000 grant of public funds being given to a company called Log Six Systems, which was founded by a gentleman called Stephen Roberts, who it turns out is not just a former bankrupt but is currently banned from being a company director. He was criticised in 2011 by a judge in a tax tribunal for the conduct of his business affairs and was described in a judgment as being "evasive and devious". Was Scottish Enterprise aware of Mr Roberts's background when it agreed to support him with public funds?

Adrian Gillespie: The gentleman in question is not a director of the company that has been awarded funds. There are two directors of that company, and he was not an applicant for the funds. He is an employee of the company and having an employee in that situation would not prevent us from awarding public funds.

The Convener: Okay. The *Sunday Herald* article says that he is currently on a

"trade delegation to the United Arab Emirates, organised by Scottish Development International."

Is that correct?

Adrian Gillespie: So I understand. Again, his position would not preclude him from being involved in trade missions.

The Convener: It does not concern you at all that you are associated with a company that is linked to a founder who has a rather chequered past and has been criticised in this way.

Adrian Gillespie: I understand that he is the co-founder. The competition itself was judged by people who are expert in this field, which would give us confidence that the idea is sound. As with every grant award that we make, we will monitor it extremely closely to see that the objectives of the application are met.

The Convener: Thank you for putting that on the record.

As there are no further questions, we can bring the session to an end. Thank you very much for your time. I am very grateful to you for coming along and helping us with our budget scrutiny. It has been a long session and we have covered a lot of ground.

15:47

Meeting continued in private until 15:56.

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