



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 28 May 2014

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ECONOMY, ENERGY AND TOURISM COMMITTEE
17th Meeting 2014, Session 4

CONVENER

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

DEPUTY CONVENER

*Dennis Robertson (Aberdeenshire West) (SNP)

COMMITTEE MEMBERS

*Richard Baker (North East Scotland) (Lab)

Marco Biagi (Edinburgh Central) (SNP)

*Chic Brodie (South Scotland) (SNP)

*Alison Johnstone (Lothian) (Green)

*Mike MacKenzie (Highlands and Islands) (SNP)

*Joan McAlpine (South Scotland) (SNP)

*Margaret McDougall (West Scotland) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Forbes Duthie (Highlands and Islands Enterprise)

Alex Paterson (Highlands and Islands Enterprise)

Iain Scott (Scottish Enterprise)

Lena Wilson (Scottish Enterprise)

CLERK TO THE COMMITTEE

Douglas Wands

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 28 May 2014

[The Convener *opened the meeting at 09:32*]

Decision on Taking Business in Private

The Convener (Murdo Fraser): Welcome to the Economy, Energy and Tourism Committee's 17th meeting in 2014. I remind everyone to turn off or at least turn to silent all mobile phones and other electronic devices so that they do not interfere with the sound equipment.

Under agenda item 1, do members agree to take items 4 and 5 in private later this morning?

Members *indicated agreement.*

Budget Scrutiny 2014-15

09:32

The Convener: Item 2 concerns scrutiny of the 2014-15 budget, on which we agreed that the committee would take follow-up evidence from the enterprise agencies. Accordingly, I welcome Lena Wilson and Iain Scott, respectively the chief executive and the chief financial officer of Scottish Enterprise; and Alex Paterson and Forbes Duthie, respectively the chief executive and the director of finance and corporate services of Highlands and Islands Enterprise. It is a change for the committee not to be discussing Scotland's constitutional future, and we will try to steer away from that subject this morning, if that is at all possible.

Before we move to questions, I invite Lena Wilson and Alex Paterson to take a couple of minutes to set the scene and say how they think things are with the Scottish economy and how the enterprise agencies are contributing to our shared ambition of economic growth.

Lena Wilson (Scottish Enterprise): Good morning, everyone. It is nice to be back. I will provide some context about the general economy.

Things are definitely picking up pace. Gross domestic product has grown for the past seven successive quarters. The Fraser of Allander institute says that GDP is forecast to be 2.3 per cent for the next two years. Employment rates are up and unemployment rates are down. However, the sustained growth that we are all looking for—the shift from consumer spending to increased business investments, exports and productivity—still needs to be worked at very hard. Weak growth in the euro area is also a continued risk. It is important to understand that backdrop to the economic development decisions that we take.

Along with our colleagues in Highlands and Islands Enterprise, Scottish Enterprise has performed strongly in the past year. We have made 117 regional selective assistance offers and we have created or safeguarded more than 6,000 jobs. It has been a strong year for foreign direct investment in Scotland; more than 7,300 jobs are still associated with that. Through the Scottish Investment Bank, we have invested £27 million in 104 companies in the Scottish Enterprise area, and I know that there have been great investments in HIE's area, too.

In a previous appearance before the committee, we talked about financial readiness and helping companies to access finance, because ensuring that companies can access finance is as important as the availability of finance is. We have assisted 378 companies to access that.

Importantly, our trade and investment support for companies has almost doubled. We have helped 2,500 companies with trade and investment support, which is 96 per cent up on the previous year. There has been a big push on internationalisation.

On efficiencies and savings, we have a strong track record of service innovation and of driving efficiency into every aspect of Scottish Enterprise's business. We have exceeded the Government's targets in our efficiencies. All that is about maximising the economic impact.

If I could use one word to describe our plan for the next three years, it would be "more"—more confidence; more work in sectors; more jobs; more innovation; more internationalisation, which is at the heart of Scotland's competitiveness; much more ambition; more connectivity; and more opportunities. Every single penny counts.

With regard to our SIB work, we know that our leverage is 1:3.3, and we know that we can turn every £1 that we invest into up to about £9 of gross value added in the economy. That will determine every decision that we make, on the basis of evidence. We will invest more than £330 million in the Scottish economy.

Aside from the constitutional interest, 2014 is also a big year for Scotland in many other ways, and we are taking advantage of everything that we can, from homecoming and the Ryder cup to the Commonwealth games. We have some very interesting statistics about how Scottish companies are doing in that regard.

I hope that that helps to set the scene for the discussion.

Alex Paterson (Highlands and Islands Enterprise): From HIE's perspective, the year that has just finished was a good year for hitting our financial and non-financial targets. More than £93 million was invested in the economy of the Highlands and Islands through our resources and from resources that were brought in from elsewhere in relation to significant projects. Through the investments that have been made, more than 2,000 jobs will be created; there has been a significant growth in turnover, a third of which involves export markets; and many good community projects have been progressed.

As the committee knows, we have a number of regionally significant investment projects, a number of which made good progress last year. Inverness campus has gone from being an infrastructure project to being one in which buildings have gone up, and 600 people are now employed at the enterprise park in Forres, which was the beneficiary of significant shovel-ready funds. That is hugely significant for the Moray economy.

Last year saw the start of the roll-out of broadband, which I suspect will be one of the most significant investments that the Highlands and Islands will have had in many years. More than 10,000 premises have already benefited from the roll-out of broadband.

Our plan for 2014 to 2017 was launched a few weeks ago. We called it "Building our Future"—it is the first time that we have given our plan a name. It says a number of things. One is that we see the economy recovering. I will not repeat what Lena Wilson said but, in the Highlands and Islands, unemployment rates are at 2 per cent across the board, employment rates are high and we know from our account-managed companies that optimism and confidence are increasing, so there is a lot to build on and there are significant opportunities for the region. Our plan sets out the four priorities—the building blocks, if you like—that we have had for two or three years, which we think are the right ones. We are focused on ensuring that we drive increased impact through the delivery of those four priorities.

Our budget was approved by the HIE board last month. We are now two months into the new financial year and are motoring on all cylinders to ensure that we deliver the best economic and community outputs for the Highlands and Islands.

The Convener: Thank you. In our questions, we would like to follow up some of the observations and recommendations in our previous budget report that relate to efficiency savings in particular. We will then open up the discussion to broader issues about how you will use your budget for the current year to develop some of the ideas that you just talked about.

I want to run this agenda item until about 11 o'clock, so we have a little time in hand. However, I ask members to keep their questions short and to the point. It would also help to have answers that are as short and focused as possible, given that we have quite a lot of ground to cover.

I will start us off by directing the first question to Lena Wilson of Scottish Enterprise. In our budget report, we looked at the £26.3 million of asset disposals that you must make in the current year to make up the required level of income. You have helpfully provided us with a table on the structured disposal process of non-strategic assets—it is on page 16 of paper 1; I hope that you have a copy of that with you—which sets out various properties. The estimated income comes to £27.5 million in aggregate. So that I am clear, will you confirm that that is the amount of money that you hope to make by disposing of those assets? Is that right?

Lena Wilson: Yes.

The Convener: What is the £20.3 million figure that is along to the right and at the bottom of the

“Disposals” column in the table? How does it relate to the other figure?

Iain Scott (Scottish Enterprise): The £20.3 million figure in the table is the accumulation of three of the columns—it is the sum of the cost of the assets and the addition of any other costs that we have incurred on the assets since we bought them minus the assets that we have disposed of partially or in full. The figure shows the net cost of those three aspects.

The Convener: Thank you for that clarification. Is the list of assets the totality of your property disposals for the year?

Lena Wilson: No. Although the list applies to this year, it sets out what we determine to be non-strategic assets. We have legacy assets that have been around for a while. The sale of those assets would not impact negatively on any investment that we would want to make.

We hold a range of assets. In fact, we keep on investing in assets. For example, we will invest in new assets in the energetica project in Peterhead and we are investing in the inovu building at the international technology and renewable energy zone—ITREZ—at the University of Strathclyde.

The table shows what we determine to be non-strategic assets that we hope to dispose of this year. However, the market is still tight, so some of the assets’ values will have to improve before we can sell them. Perhaps not all of them will be disposed of this year because of that, but the table sets out our intended disposals.

The Convener: I will look at a different section of the figures that we considered as part of our budget scrutiny work. Your strategic forum savings target for 2014-15 is £17.3 million. According to the breakdown that you have provided, property asset disposals represent £14.8 million of that amount. Is that correct?

Lena Wilson: Yes.

The Convener: That is another £14.8 million on top of the £27 million in the table to which I referred.

Lena Wilson: No. Iain Scott will respond.

Iain Scott: The £14.8 million is the element of the £27.5 million that is required to meet our strategic forum savings target. The total target is £17.3 million. The £14.8 million is the element of the £27.5 million that we are likely to sell that can be attributed to the strategic forum savings target. We will generate more income than the strategic forum savings target total. Some of that will be based on the asset sales; some of those asset sales will go to other income.

The Convener: I am a bit confused now. Are you not double counting? I understand that the

strategic forum money is top-sliced from your budget. In addition, you need to find another £26.3 million from extraordinary asset disposals.

Iain Scott: We do not need to find savings in addition to that figure. To manage that top-slicing from our budget, we need to generate £26 million, although the final business plan now has the figure at £23 million. This year, we need to generate that amount to achieve the total income required after taking off the strategic forum savings target.

The Convener: I am not sure that I quite understand that.

Lena Wilson: Shall I have another go at explaining the position?

The Convener: Yes, please.

Lena Wilson: I fear that I will just end up repeating what Iain Scott said. The convener is right that the strategic forum savings are top-sliced from the budget, but we have to balance that budget and show how we will make those savings. Contributions to those savings come from various sources, such as reduced head count, reductions in premises or any number of other efficiencies, as well as generating additional income through the disposal of assets.

This year, we will meet the savings target by taking a portion from many things that we do. The portion that we will take from our strategic assets is less than the total of £27 million that we will reinvest in our work. That is a way of balancing it and accounting for it but there is no double counting—none at all.

09:45

Iain Scott: Committee members probably do not have in front of them the financial summary in our business plan, but that might make it easier to understand how the figures work, because it starts with the grant-in-aid income baseline that we got for our budget from the Government this year. We take the strategic forum savings amount from that figure to come to the net figure that we get from the Government. We then add back on the income that we need to generate to get to our total income for the year, which is used for expenditure. That shows the £17.3 million reduction in our grant in aid and adds back on the property disposal income to get to our total income for the year. That summary might help the committee to understand the figures.

Lena Wilson: We are seeking to be incredibly transparent, so I want to ensure that that is the case.

The Convener: I am just trying to understand the figures. In the table of all the assets that are to be disposed of, which is on page 16 of paper 1,

the first asset listed—Prestwick international aerospace park—has an estimated income of £1 million, but its cost is £2.3 million. Does that represent a pretty substantial loss?

Iain Scott: I will explain that. The columns show that the market value is £1.05 million, which is why we think that we will get £1 million. We bought the asset for £2.3 million back in 2005-06. We have had a partial disposal of the asset of £600,000, so a loss is not involved there. We disposed of that bit and got money for it. However, we are looking at a valuation adjustment reduction of about £685,000—that is the reduction in value since 2005-06 for the land that we have left, which we will dispose of this year. The market value today is only just over £1 million, so that is what we think that we can get for it.

Lena Wilson: That is balanced out by other properties and assets on which we will have gains so, as the market operates, it is a question of swings and roundabouts to an extent.

The Convener: That is true, but perhaps if you were not in effect being forced to sell in the current year to meet the shortfall in your income, you could have held on to the asset for a few years until the market had improved.

Lena Wilson: We could always hold on to something and find ourselves in the same situation. You are right—this is a judgment call, based on lots of years of experience, on when the right time to sell is. One never really knows except with hindsight.

Chic Brodie (South Scotland) (SNP): When were the market valuations done?

Iain Scott: They were done as part of our year-end accounts exercise for this year, so they are valid as of the end of March.

Chic Brodie: Who did the valuations?

Iain Scott: Our independent valuers—I can send you the details.

Chic Brodie: We have talked about the numbers and I am confused already. The forum saving is listed as £17.3 million. In the schedule that we have, part of the income generation is disposals of £14.8 million. The table that shows the published plan versus the current income projections shows the contribution of the strategic forum savings—the £17.3 million that I mentioned. Further down, it lists another £4 million of property disposals. Why have you differentiated the two property disposal savings in showing when they contribute to the strategic forum savings?

Iain Scott: I do not know exactly which table you are looking at, but the fact is that we will generate income of about £23 million from selling our assets. The target for strategic forum savings

is less than that, so we have allocated an element of that £23 million to explain how we will meet that target. We could equally have put the £23 million into the strategic forum savings target table and it would have shown that we could have a total of about £26 million—at one stage we did put it in that table.

Chic Brodie: Why did you take it out?

Iain Scott: We were asked how we would achieve the £17.3 million target, so we have shown how we will achieve that target. I could equally have said that we will exceed it by another £9 million from the further property sales that we will have.

Chic Brodie: I understand the cosmetic presentation.

On the figure of £23 million, one item in that—Carrickstone park in Cumbernauld—is worth £7.4 million, which is 35 per cent of the total. How likely is that sale to happen?

Iain Scott: Our business infrastructure team has accepted the challenge from us to generate that level of income this year. We all know that the target is challenging. The team has put the property on the list as it believes that it is a non-strategic asset that can generate that value this year. Until we sign the deal that sells the asset for that amount, I cannot say with 100 per cent certainty that we will do that, but the team is confident that it will deliver the list for us this year.

Chic Brodie: How much will the property agent get if he or she sells the park?

Iain Scott: I do not know the detail on that. If we use a property agent, we will pay the normal level of fees.

Chic Brodie: Your submission says that

“a property agent has been competitively procured to handle the marketing and sale of the asset on our behalf.”

I am asking the question because the property makes up a high proportion of your targeted savings. Clearly, there has to be an incentive to ensure that the £7.4 million is saved, and that brings into play the cost of the sale.

Iain Scott: I cannot give you the exact figure, because I do not know it, but I am sure that it will be competitive in comparison with market sales for such property. As the submission says, we procured the agent openly, so we will pay a competitive price.

Mike MacKenzie (Highlands and Islands) (SNP): My questions are for Alex Paterson and Lena Wilson. In Lena Wilson's submission, she talks about the problem of ensuring best value in selling property, given that the market has not recovered. Selling property now rather than

waiting a couple of years until the market picks up might entail a loss. I absolutely accept that, but to what extent do you consider the wider economics of property disposal? If you have one big shed and you sell it to a sitting tenant and then use the resources to build another big shed, a greater public good is being provided than if you wait a couple of years to get another 10 per cent in the disposal of the property. To what extent do you undertake such analysis before deciding whether to sell and which properties to sell?

Lena Wilson: Are you asking about the cost of selling or not selling?

Mike MacKenzie: I am trying to put it in layman's language, rather than economic terms. I think that the question is also pertinent to Alex Paterson. In your disposals, do you look at the wider economic impact?

Lena Wilson: Absolutely—that is fundamentally important. I explain to the committee that we no longer build many big sheds. We built the inovu building in Glasgow for a particular need and sectoral opportunity in renewables, but Scottish Enterprise is much more about incentivising the private sector to operate and develop sites, so a lot of the sites are legacy sites.

We consider the annual costs of maintaining sites, such as security and maintenance costs, as well as future costs for things such as decontamination. We have to consider all that as well as the economic benefits. If we sold a site, we would absolutely consider what to invest the income in. The stuff that is beyond the strategic forum savings is our key opportunity to invest in sectors.

Mike MacKenzie: To give us a more general feel, what proportion of the overall value of the properties that you hold will you dispose of?

Iain Scott: The total value in this year's year-end accounts will be in the region of £140 million or £150 million. If we disposed of £20 million of that, that would be a seventh or an eighth. That is the kind of proportion that is involved.

Mike MacKenzie: Correct me if I am wrong, but I think that you said that you hoped not to dispose of properties that have strategic importance. What proportion of the remaining properties will you ring fence and not dispose of because of their strategic importance?

Lena Wilson: The ratio is 80:20—20 per cent is non-strategic and 80 per cent is strategic.

Iain Scott: This year, we are maximising the non-strategic side of things. By default, what remains will pretty well be on the strategic list.

Mike MacKenzie: Am I correct in assuming that part of next year's savings will be realised from future property sales?

Lena Wilson: That is most likely.

Mike MacKenzie: I will raise another fairly critical issue. Iain Scott mentioned the Prestwick situation, which involves a significant hit. Perhaps Alex Paterson can respond to my next question. Reducing regional inequalities is a part of Scottish Government policy. To what extent are you affected by those inequalities when you make property investments in areas that are growing, such as Inverness, which gives rise to higher property values, as opposed to areas where the economy is languishing and property values are therefore lower? In a sense, the difference in values is seen not in the sheds that are put on top of the ground but in the land that is under the sheds.

Alex Paterson: I will comment on a number of points from HIE's point of view.

We are clear that we value our assets as part of the annual accounts in exactly the same way as Scottish Enterprise. We do not sell at below asset value and we test the market whenever we sell a property.

You asked whether we consider wider economic issues when we dispose of property, and we do that. We have decided not to proceed with some property sales because we thought that the economic benefit would not be sufficiently great or because we thought that the sales could be detrimental, particularly in some of our more remote and fragile areas.

Another issue to bear in mind is that, whenever we sell an asset, we reinvest the proceeds in other projects. Sales contribute to new projects. We have a strategic infrastructure plan that sets out where we want to make investments in property or land preparation to encourage new build.

Regional inequalities are an important consideration. There are headline projects such as Inverness campus—sure—but, equally, I could take members to projects such as the expansion of the business park in Dunoon, which is about to go on site. We have buildings up in Orkney; we have partnered with private sector developers in Campbeltown; and we contributed to the community's development of industrial units in Galston estate in the Western Isles and in Ullapool.

Strategic or well-chosen investments in property and infrastructure are catalysts for economic development across the Highlands and Islands. We have a clear focus on ensuring that that does not become Inverness-centric. I have given just a few examples of infrastructure and property

investments that we have made across the Highlands and Islands to spread opportunities fairly.

Forbes Duthie (Highlands and Islands Enterprise): Another important element is market failure. If, for argument's sake, somebody builds something in the Western Isles, the reality is that it often ends up costing more to build something there than the property is worth as a commercial operation. If we did not step in, the private sector would not come in.

That is very much about developing and pushing our economic development role, and the impact of that on our accounts is well recognised by the Scottish Government. Our non-cash allocations for depreciation and write-offs accept that reality.

As Alex Paterson was right to say, we do not wish to be long-term landlords. We want to promote a commercial property market so, if we can get an exit that makes economic sense for the area and the region, we will take that at every opportunity.

We turn over about 10 per cent of our property every year. Our property portfolio is in the region of £45 million and we have about £4.5 million in capital receipts a year. We reinvest that to look for more opportunity. Once a business park is let and established, it is wrong for us to sit there in the longer term if we can release the funding and go on to do something else.

10:00

Mike MacKenzie: I am getting the picture.

I have one further question—it is a compound one. You mentioned in the written submission that one of the problems in disposing of a property is that you might have a sitting tenant who would love to acquire the property but is unable to raise the finance in these difficult times. Have you employed shared equity schemes, similar to the social housing schemes that allow people to buy progressively?

Finally, my ears pricked up when Alex Paterson mentioned the 2 per cent unemployment rate in the Highlands and Islands. Are you sure about that figure? Are you not referring to the claimant rate, which understates unemployment?

Alex Paterson: That is the claimant figure.

Mike MacKenzie: And you would agree with me that it understates unemployment to the extent of 50 per cent or so.

Alex Paterson: There are two different measures. I consistently use the claimant count one, but it is lower than the other one.

Mike MacKenzie: If John Swinney is listening, I would hate him to form the impression that everything is rosy and that that represents the true figure for unemployment. I would hate him not to recognise that we export a lot of our unemployment in the Highlands and Islands, or that a different picture might be presented were it not for the significant degree of renewal of oil and gas activity in Shetland. I thought that it was worth putting it on the record that the 2 per cent figure really does not represent a true picture of the Highlands and Islands.

Alex Paterson: There are two different measures, and I have used the claimant count one. However, in 17 out of the 18 travel-to-work areas across the Highlands and Islands, unemployment fell between last April and this year. There is an underlying reduction in unemployment, which is good. Let us not pretend that everything in the garden is rosy—there are challenges—but that is not a bad position to be in.

Dennis Robertson (Aberdeenshire West) (SNP): I have a brief question on that, just because we are looking at the figures. If I remember the figures correctly, there was also a 7.5 per cent increase in the population. Is that population growth due mainly to people coming in from the skills sector, or are there other reasons?

Alex Paterson: It is a combination of things. We have a wee profile of the population changes in the Highlands and Islands, and there are issues underneath the change. The population of the Highlands and Islands is marginally older than in the rest of Scotland. We still have an imbalance because young people leave for higher education, which is why the University of the Highlands and Islands and so on are so important. In every other age range beyond that, there is a net growth.

Dennis Robertson: There is an increase in the population figures, though.

Alex Paterson: Yes, there is. It is not universal, so in places such as Argyll and Bute there has been a decline, whereas in Highland Council area, the Western Isles, Orkney and Shetland, there were significant increases in the most recent population census.

Chic Brodie: If I may come back to Alex Paterson and Forbes Duthie. By the way, I should have said "Good morning" earlier.

When I look at the properties that you have disposed of—£2.1 million, according to the sale price—and the asset valuation, I see that there is a difference of 25 per cent. Either that is good selling and marketing or the valuations are wrong. I am confused by Forbes Duthie's comment about the commercial sales that make economic sense. Alex Paterson said that you will never sell below

asset value. That comes back to the accuracy of the valuation.

What is the policy? Is it that you will not sell below the asset value or do you take into account the attendant costs of buildings lying empty, such as energy, the need for maintenance and loss of interest on cash? What is the policy that you are applying? Is it cost of ownership? Is it simply an asset valuation? What is it?

Alex Paterson: The baseline is that we will not sell below asset value. That is the starting point; we then look at what price the market will pay for different properties. You are right to ask the question—we have also asked ourselves whether the asset values are correct. They are done independently as part of the annual accounts in Audit Scotland, and we are comfortable with that approach. However, the baseline is that we do not sell below asset value. I do not think that we are even allowed to.

Forbes Duthie: No, we are not.

Chic Brodie: You are not, which is why I made the point about valuation. Does Scottish Enterprise have the same policy?

Iain Scott: Yes, absolutely. It is the public finance manual policy that we cannot dispose of something below market value. Clearly, all of the costs that you outlined will form part of that independent valuation.

The Convener: We need to move on and talk about other issues but, before we do that, I will go back and try to get some clarity on property disposal.

I have been looking again at the table on page 8 of my papers that is headed “Table 1—2013/14 Published Plan v 2014/15 Current Income Projections” for Scottish Enterprise. I do not know whether you have that in front of you, Iain, but it shows your 2014-15 draft budget, starting with a grant-in-aid baseline of £220 million. The contribution to strategic forum savings of £17.3 million comes off that, and then £46.1 million of in-year transfers are added on, giving you a total anticipated grant in aid of £248.9 million.

Of the strategic forum savings in that second column, £14.8 million is property disposals. There is a further property disposals line of £4 million and then additional income from further asset realisations of £26.3 million. It is a long time since I did O grade maths or arithmetic, but I make that £45.1 million in asset disposals. Am I right?

Iain Scott: I am still trying to find the table that you are talking about, convener. I am sorry.

The Convener: For the record, I got an A in O grade arithmetic, but it was a long time ago.

Iain Scott: I am sure that the numbers add up. I am happy to come back to you in writing on that, if that would help.

Lena Wilson: Will you help us by telling us exactly what table you are looking at, convener, so that we look at the same thing?

The Convener: We will get a copy to you. It is from your submission to the budget.

Iain Scott: I have got it. That was the original submission that we made before our previous appearance at the committee.

The Convener: Yes, that is right. I am looking at the second column, which is the draft budget for the year that we are talking about. I am saying that you have £17.3 million of strategic forum savings, of which we know that £14.8 million is asset disposals. Below that, you have a subsequent line for property disposals of £4 million and then you have £26.3 million of additional income. I make that an aggregate of £45.1 million in property disposals. Is that correct?

Iain Scott: No, it is not correct. You cannot add those together. As I outlined, there is a -£17.3 million—sorry, am I looking at the right figures?

The Convener: Yes.

Iain Scott: That £17.3 million comes off our grant in aid, so it reduces the amount of grant in aid that is available to us from the Government. To try to make that up to maintain our expenditure levels, we then add back on the property disposals that we will make. As per that table, you would be right to add the £4 million and the £26.3 million at that time to say that we need to generate about £30 million from the disposals.

The Convener: No, I am sorry—I simply do not agree with your arithmetic, Iain. I think that you are double counting. It is a simple mathematical equation. In fact, it is not even that: it is an arithmetical equation. You are right that the £17.3 million is top-sliced off, but you make it up by £14.8 million in property disposals. You cannot count the same figure twice.

Iain Scott: I do not see a figure of £14.8 million.

The Convener: The £14.8 million is included in your figure of £17.3 million. The information that you gave us was that your £17.3 million was made up of £14.8 million in property asset disposals and property income. Will you come back to us about that, because we need to get an understanding of it?

Iain Scott: Yes, I am happy to try to explain that. The £14.8 million is definitely included in the £26.3 million.

The Convener: In that case, I think that you are double counting it. You cannot count the same figure twice.

Lena Wilson: We are definitely not double counting it.

Iain Scott: We are not double counting it. I am happy to come back to you on that.

The Convener: Okay. Thank you very much. What is the total value of Scottish Enterprise's property holdings?

Iain Scott: I think that we will probably have about £140 million to £150 million in our year-end accounts.

The Convener: Right. So you are selling off quite a large chunk this year.

Iain Scott: Forbes Duthie normally turns over about 10 per cent of HIE property; we normally turn over a bit less than that. It has been about £4 million or £5 million for the past few years. The three-year business plan that we published shows that we are increasing that significantly next year because of the additional reductions of up to £23 million, but then it goes down to about £8.8 million and about £3.4 million the year after that. The figure is probably in the region of £6 million a year if the figures are averaged out. However, we are significantly increasing that next year because of the additional reductions that we have.

The Convener: Okay. You would expect your strategic forum savings for next year to be another £17 million.

Iain Scott: At the moment, we think that they will be. We expect that, but there has been no confirmation of what any savings next year would be.

The Convener: I presume that that will require more property disposals.

Iain Scott: There will be some property disposals. The plan that we published shows that we are looking at a figure of £8.8 million next year. There will be an increase in the investment disposals next year. We hold equity in companies and believe that we are now at the stage at which we can get some return on those assets, as well. Therefore, there will probably be more on the equity side than on the property disposal side next year.

The Convener: Right. Okay.

Lena Wilson: I can tell that there is disquiet about those figures among at least some members of the committee. It is not our intention to create that—we seek to be very transparent. There is no double counting. I wonder whether, between committee meetings, we can find a way to iron out some of that disquiet so that we do not

sit here sometimes not all looking at the same tables and figures. That is not in anyone's interests. I would be willing for us to be as open as possible and to sit with members and go through everything so that we do not have that scenario, which we seem to keep coming back to. That is not satisfying for anyone.

The Convener: Okay. We can follow that up with you separately.

Lena Wilson: Thank you.

The Convener: Unless anybody wants to follow up that matter further, we can move on to talk about other issues.

Dennis Robertson: Good morning. Highlands and Islands Enterprise has a very ambitious and aspirational programme for the future. How much of the future projection of income generation is attributed to the roll-out of broadband?

Alex Paterson: The income that we will get from the roll-out of broadband is not in the figures in the budget table in our submission. That is over and above them. Superfast broadband, community broadband and our contributions to the Scottish land fund are in addition to what is noted there. Equally, the expenditure is net of those figures.

Dennis Robertson: Do you see broadband as an opportunity for bringing in additional business to the Highlands and Islands?

Alex Paterson: I think that the roll-out of broadband is the most important thing that we are trying to do in the Highlands and Islands, because it will transform what current businesses can do and make the region more attractive to inward investment. We know that that is an important factor. It will make distance and geography issues less relevant, as people can do things with digital connectivity.

As I have said before in the Parliament and in many other places, getting the fibre in the ground is just the start. We will really start to see the difference through exploiting broadband for economic and community benefit. The infrastructure is a means to an end, not an end in itself.

Dennis Robertson: I will come back to you on that.

Scottish Enterprise sees that as a bit of a challenge, does it not? Its submission says that part of the challenge for it is the fact that there is not adequate broadband digital connectivity in certain areas.

Lena Wilson: That is right. We are working a lot with the Scottish Government's digital team on that front. Access to that speed and capacity of connectivity is a key to competitiveness.

Dennis Robertson: How much does that impact on future development? How off-putting is the situation for encouraging business to come in? Can you give a figure for that?

Lena Wilson: So far, I do not think that any inward investment has not been able to come to Scotland because of a lack of connectivity—that has not hampered any investment. It would not be fair to say that I can put my hand on my heart and say that it has not stopped any business growing, and we certainly talk to businesses a lot about their communications issues. In the way that we did with the banks, we intervene with the providers to influence on the businesses' behalf—we do all that with our account managers. However, to my knowledge, we have not lost any investment to Scotland because of a lack of connectivity.

Dennis Robertson: Scottish Enterprise is basically looking at increasing its global market, which includes exports. I think that you referred to the smart exporter programme. Will you explain what that is?

Lena Wilson: That is a programme that runs throughout Scotland, and it is one of the reasons why we have been able to almost double our activity. We have reached thousands of businesses that did not pay any attention to exporting, and this is the programme that will get new exporters exporting. As we have said to the committee before, the issue is that most of our exports come from a couple of big sectors and too few companies are exporting. This is an initiative for awareness raising, market development, product development and advisory services. We want to reach as many companies—often very small companies—as possible.

10:15

Dennis Robertson: So you are looking at innovation and new entrepreneurial developments.

Lena Wilson: Yes. We are looking at everything from the basic awareness of how exporting is done, to awareness of the markets that can be exported to, how the product could be packaged, and the technical side of exporting, such as guarantees and licences. The programme is really a step-by-step approach that will open up minds to exporting. All our research tells us that companies think that exporting is more difficult than it is. When they become more aware and meet people from other companies who are doing it, they are more likely to do it themselves.

Dennis Robertson: How fragile is that situation? In your submission, you say that a lot of that approach is based on partnership and collaboration.

Lena Wilson: I do not think that it is fragile at all. The fact that we are collaborating and that there is such robust support throughout Scotland from the business gateway all the way up is a very good thing. There is a joined-up, team Scotland approach to making Scotland much more international. The collaboration is much stronger than it ever was.

Dennis Robertson: That is great. HIE also seems to be hoping to develop new export opportunities. Is that right?

Alex Paterson: There are two basic strands to our exporting approach. One is to help those who are currently exporting to do more, and the second is to help companies that do not export to consider doing so. As Lena Wilson said, the smart exporter programme is designed to help companies take their first steps towards exporting. Our twin track approach to internationalisation support is to grow what we already have into new markets, and to encourage and support those who do not export to look at doing so. As Lena Wilson said, the risks are often overemphasised and the benefits underemphasised.

Dennis Robertson: There are traditional companies that export, which you are continuing to support, and you are looking at new opportunities. Is that right?

Alex Paterson: Yes.

Dennis Robertson: Is that primarily with the food and drink industries?

Alex Paterson: It is across the board. Food and drink is important, and we are in the access to market programme for food and drink companies. However, we work across the board.

One of our most internationalised sectors is the creative sector. We are doing a lot of work on a new strategy for the creative industries, a major part of which will involve international trade.

We will support any account-managed company that we work with that has aspirations to export, irrespective of which sector it is in.

Dennis Robertson: Scottish Enterprise is looking at the export markets in new areas such as China and the Asian sub-continent. Your submission mentions the fact that, although you are still looking at the European market, you are also looking at other markets for exports, because of the problems with the euro.

Lena Wilson: Our strategy is a both/and strategy, not an either/or strategy. Some of the European markets, such as France and Germany, are still important for Scotland. If you look at what is happening to Scotland's sectors, you will find massive internationalisation of oil and gas. With Scottish Development International, we now have

an office in Calgary and one in Ghana, and we are opening one in Kenya and another in Perth, Western Australia. We are following the market opportunities where the sectors are growing. The approach is, and will continue to be, very opportunity led.

Dennis Robertson: What will its value be?

Lena Wilson: It is very hard to say. We will not turn everything round in a year. We are talking about some quite frontier stuff—about building capacity in some quite challenging markets. There are lots of opportunities, but the markets are difficult to work in.

Dennis Robertson: You are talking about ambition, not aspiration.

Lena Wilson: Absolutely, and that is shown by some of the results that we have seen. We have tens of Scottish companies in Perth, Western Australia. TRAC Oil tells us that, but for the support that it got from us, it would not be in Australia. That is very important, particularly in challenging markets such as west Africa.

Dennis Robertson: Could you give any projected income figures?

Lena Wilson: Yes. For example, we could look at what Scotland exported to Ghana last year and what it will have exported to Ghana in two years' time. We should be able to tell quite quickly, year on year, how many Scottish companies are getting into that market.

Dennis Robertson: Is HIE also looking at new areas in the global market?

Alex Paterson: Yes. We work in partnership with SDI. We know that the European market is still vitally important for Highlands and Islands businesses, but the Asian market and other emerging markets, particularly in relation to oil and gas, are as relevant to us as they are to the rest of Scotland.

Dennis Robertson: Has Scottish Enterprise restructured its account management profile?

Lena Wilson: Yes. We have brought in an approach that is even more differentiated and which looks at value. It is about putting the best resource where it is most likely to have value and focusing on high growth and internationalisation. We have embedded that approach just recently. It is about going a step further in segmentation, if you like.

Dennis Robertson: Do you anticipate that that approach will give you a high return at the end of the day?

Lena Wilson: That is what we are looking for. We had quite a record year in terms of increased turnover in our account-managed companies. We

did a big evaluation of account management that showed us that there is 70 per cent satisfaction with the approach, that the companies that we work with are likely to grow at a much faster rate, and that 70 per cent of those companies are small and medium-sized enterprises. We used all that evaluation—again, in an obsession with evidence—to allow us to differentiate and segment even further. If a company is looking at the international market, it will often have not just the Scottish Enterprise account manager but a global account team, involving SDI personnel and sector specialists, that the account manager will lead. It is about putting as much resource as possible behind Scotland's greatest opportunities, which will yield greater economic impact.

Dennis Robertson: You mentioned that this year is particularly important and that you are taking full advantage of it.

Lena Wilson: We are. We have had £20 million-odd of business already from the Commonwealth games and a range of Scottish companies have already got business through the Ryder cup. Significantly, the proportion of business is much higher than what came through the Olympics, when we also did well. We now get about £5.50 of GVA for every £1 that we spend on account management, which is very significant. The aim is to increase that figure as the years go on.

Dennis Robertson: The convener has been very generous in allocating time to me, so I will stop there.

The Convener: I have been exceedingly generous, deputy convener. We move on to Margaret McDougall.

Margaret McDougall (West Scotland) (Lab): I, too, wanted to ask about account-managed companies, but my questions have been partly answered by the information on the proportion of SMEs on your books compared with national and multinational companies. You said that 70 per cent of your account-managed companies are SMEs. Is that correct?

Lena Wilson: SMEs make up 76 per cent of our portfolio.

Margaret McDougall: Does that mean that 24 per cent are multinationals? What is the figure made up of?

Lena Wilson: Unfortunately, companies in Scotland that are beyond SMEs are often not quite multinationals, although some of them could be. For example, Scottish Enterprise account manages FMC Technologies, which is a company in the oil industry from Houston in Texas. We have helped FMC to create hundreds of jobs in Scotland through, for example, a research and

development centre in Bellshill. FMC gets the same service as the other account-managed companies get. I think that I have said to the committee before that when such a company operates in Scotland we regard it as a Scottish company and want to see it expand. A lot of inward investment comes to Scotland so that we can then export from Scotland. That is a very important part of Scotland's internationalisation.

Margaret McDougall: Is Amazon one of those companies?

Lena Wilson: Yes. It is a company that we support.

Margaret McDougall: How do you balance that, given that Amazon is one of the companies that do not pay all the taxes that they should?

Lena Wilson: I think that we covered that extensively at the committee previously. I will give the same answer. Obviously, we do not set company taxation rates—that is not a matter for Scottish Enterprise. What is really important to me is the economic impact in Scotland of companies such as Amazon. Amazon is a big contributor to the Scottish economy in terms of jobs. It has a service centre in Edinburgh in addition to its fulfilment centres in the country. The taxation element is beyond me.

Margaret McDougall: It is a pity that such issues are not looked into when consideration is given to funding organisations such as Amazon.

Lena Wilson: The criteria for regional selective assistance are very clear and, in relation to the nature of the jobs that it was creating, Amazon met them all.

Margaret McDougall: How many new account-managed companies have you taken on in the past year?

Lena Wilson: I will have to put my glasses on to find that information. In the most recent year, 273 companies came into the portfolio, which has around 2,200 companies in it. As I have told the committee previously, we want to keep growing that number. Interestingly, 183 companies left the portfolio. That churn is very important; it is not a static portfolio. We are looking for new companies that are growing to come into it, but there might be some companies that are not growing as quickly as is necessary, that do not have the required ambition or that do not want to work internationally, and it is important that they leave the portfolio. In the most recent year, 273 companies joined the portfolio, which was an increase of more than 10 per cent.

Margaret McDougall: On entrepreneurship, how many companies have you helped? I saw some figures on that and they did not seem terribly high—I think that you had helped around 50

entrepreneurs. Is there any way in which you could boost that number?

Lena Wilson: I hope that we can boost it. I have said to the committee on previous occasions that I will never be hampered by the amount of resource that we can put into companies that can grow—I will find resource from somewhere. The key is that Scottish Enterprise is about high-impact entrepreneurship.

I want to differentiate between entrepreneurship support and start-up support. Start-up support is the domain of the business gateway, which is doing a very good job. We see the flow-through from some of the companies that receive support from the business gateway, grow and become account managed—that is where some of the 273 companies that I mentioned have come from.

The kind of entrepreneurship that Scottish Enterprise is interested in is high-growth entrepreneurship. You are right—we supported 43 companies through our specialist high-growth unit. Those are companies that will become account managed. In addition, 54 companies have received encouraging dynamic growth entrepreneurs awards through the highly specialised entrepreneurial support that we provide.

Scottish Enterprise's role on entrepreneurship relates to high-impact, high-growth entrepreneurs who will grow companies and employ lots of people in fast-growing markets in Scotland's key sectors. The business start-up side of entrepreneurship is for the business gateway to deal with.

Margaret McDougall: Do you have a good working relationship with the business gateway?

Lena Wilson: We have a very good working relationship with the business gateway throughout the country. That is extremely important. The business gateway should be the source of a huge proportion of the new companies that we work with.

Margaret McDougall: Could you give us an example of the new entrepreneurial companies that are being established?

Lena Wilson: A range of Scotland's key sectors are covered, including life sciences and energy. In the food market, Angelic Gluten Free Ltd got £50,000 to start up. Start-ups tend to follow market opportunities and new trends, such as premium and gluten-free foods. A range of entrepreneurial companies are being established.

Margaret McDougall: Some of the work that you do relates to banking. You help SMEs to get loans and other forms of finance. Do you find the banks helpful?

Lena Wilson: I have been very impressed by the extent to which the banks want to work with us. As I have outlined to the committee previously, we began an access to finance programme a couple of years ago. We have specialist access to finance advisers. We have worked with several of the banks to get their relationship managers together with our account managers. We have made all our information available to them and have run seminars on how businesses grow. I have been extremely impressed by the extent to which the banks want to engage. We have seen steady improvements in the range of companies that apply for finance and in the number that get it.

Margaret McDougall: It is good to hear that the banks are lending when they should be.

Does HIE have any comments to make in response to those questions?

Alex Paterson: All of them? Oh blimey.

The Convener: Do not feel that you have to answer all of them.

10:30

Alex Paterson: I will pick up on one or two of them. We have formed good relationships with a lot of banks over the past year or 18 months. There is more liquidity in the banking system than there has been for a long time. When we ask our businesses what the big issues are for them, access to finance is still there, but it is not as big an issue as it was a year or so ago. I would not say that the problem has been fixed—for those for whom it is a problem, it is still a major problem—but the extent of the problem seems to have diminished somewhat.

Through our work with the banks, we find that when we have clients in common, we and the bank can sit down together with the client to put together deals that, individually, we might not have been able to offer. We have both been able to invest in businesses and move things forward.

I think that I said to the committee when I was here the last time that we are reviewing our account management approach. The review is not yet complete, but the initial indications are very positive. Account management is making a difference and achieving additionality, and the services that are provided seem to be well regarded by businesses.

We focus on entrepreneurs who run businesses that can grow. We have two main ways of doing that. The first is our leadership programme, on which we partner with the Institute of Directors. The second is our partnership with the Massachusetts Institute of Technology. Roughly 50 entrepreneurs in the Highlands have participated in the MIT programme over the past

year, either over at the MIT or, increasingly, through masterclasses that are run as part of an entrepreneurial programme in Scotland. Entrepreneurship and leadership are very important parts of our support for businesses.

I am not sure whether I covered all Margaret McDougall's questions; I covered some of them, anyway.

Margaret McDougall: Thank you.

Alison Johnstone (Lothian) (Green): I will pick up on the Amazon question. I understand Lena Wilson saying that it is not for Scottish Enterprise to decide whether giving money to Amazon is a good thing, but there seems to be an assumption that it is a good thing. We might give funding that comes from the Scottish taxpayer to a company and help it to buy property and so on, but we do not appreciate that the taxes of those who are employed by Amazon go to the Exchequer and we have to boost poor wages through tax credits and so on. Who would have the information overall?

On the subject of money being given to Amazon, Hugh Andrew, from Birlinn books, which is a small, indigenous company, pointed out to the committee that every book that he sold was undercut by Amazon, which put him at a serious competitive disadvantage. Has someone done the maths at a higher level?

Lena Wilson: I am not sure whether we gave Amazon any money last year; I would need to clarify that. We gave evidence to the committee about a year ago and I am not sure that Amazon has had anything since then.

I do not want to go into the economic jargon, but regional selective assistance looks at two things: additionality and displacement. We would not be able to give regional selective assistance to a company if there was not proof, in all the calculations, that it was truly additional to the Scottish economy. If the company in the case that you raise merely caused displacement somewhere else, the awarding of regional selective assistance would have been questioned.

It is absolutely the case that there is a bigger moral and philosophical issue here; I am not saying that there is not—I think I said that the last time I was here, too. However, my job in stewarding Scottish Enterprise and its use of public funds is to look at economic impact and to make sure that everything we do yields a return. I know that, for every pound spent, our activity generates anything up to £9 that goes back to the Scottish economy.

I am not saying that other issues do not have to be looked into, but we look at displacements and we look at whether a company's activity is additional to the economy.

Alison Johnstone: I have other questions convenor—I do not know whether you want to come back to me later.

The Convener: I will come back to you in a little while, because I want to bring in a couple of other members.

Joan McAlpine (South Scotland) (SNP): Lena Wilson mentioned the success of Scottish Enterprise's focus on exports and growth, and she talked about the SDI network. How has the network grown in recent years?

Lena Wilson: We have opened five new offices in the past couple of years. SDI services both Scottish Enterprise and Highlands and Islands Enterprise. We have almost 100 people in a network of 28 offices throughout the world—for example, in Calgary, Ghana, Kenya and Saudi, and we have a second office in Shenzhen in China.

We also have about 600 global Scots throughout the world whom we use extensively. I think that the term that I have used previously is that we ruthlessly exploit them for Scotland's advantage. We use them very well. Where we do not have SDI offices, we work with UK Trade and Investment and use its worldwide office network.

Joan McAlpine: On the balance between the SDI network, global Scots and the use of embassies, which would you say is the most useful in delivering for Scottish businesses?

Lena Wilson: Our activity is mostly through our network of 28 overseas offices and our staff throughout the world. That is their job. They are our foot soldiers, our sales force and our eyes and ears. The global Scots all have day jobs. They do a tremendous amount for us and they are an extension of our workforce, but they are not our workforce. So, absolutely, first and foremost, our activity is through our office network.

Joan McAlpine: So the SDI network gives you the most bang for your buck.

Lena Wilson: Absolutely.

Joan McAlpine: You mentioned that a far greater number of Scottish companies have benefited from the Commonwealth games than benefited from the Olympics. Do you have any idea of why that is the case?

Lena Wilson: The Commonwealth games are on the doorstep, so I think that it is easier for some smaller companies. Also, we learned a lot from the Olympic games. We have had a lot of workshops and heard that Scottish companies did well at the Olympic games, but we have learned a lot from that. We have had a relentless focus and have run event after event. We have had communications and marketing campaigns and ensured that every

account manager and business gateway office understands the programme. We have had a real team-Scotland focus on that.

The games are here and on our doorstep. It has been a real strapline for both organisations to take advantage of 2014 in every sense possible. The language that we use is about viewing economic development through the lens of 2014. There has been a real focus, we have learned a lot and the games are on our doorstep.

Joan McAlpine: Your focus on sectors and exports has obviously been successful. Do you have a strategy for dealing with regional disparities across Scotland? Some regions are doing a lot better than others, perhaps because they have more of a focus on the sectors that you have chosen to concentrate on.

Lena Wilson: The issue of regional equity is vital. I think that I have said before that we will not have a successful Scotland if large parts of it are not participating in that. For example, we have been working with the three Ayrshire councils to look at additional account management support and to consider the impact that companies such as GlaxoSmithKline can have in the area. We have worked with East Ayrshire Council on the back of what has happened in the coal industry and have specialised programmes there. I was with the Crichton campus leadership group a couple of weeks ago, to help it to consider what assets the Crichton campus has that we can exploit.

The advantage of Scottish Enterprise is that we can put our people and resources anywhere in Scotland, although the approach has to be not just needs based but one that considers what assets we can exploit for economic advantage. Otherwise, we could plough money into things and get no return. However, where there are opportunities, it is our job to help areas of Scotland take them.

We now have location directors—very senior members of staff—for every local authority in our area. I sit on the national community planning partnership steering group, and we have a senior member of staff on every community planning partnership. That is a great opportunity to put the economy at the heart of that process and to help community planning partnerships, particularly in areas that are perhaps more disadvantaged, to look at the economic opportunity.

Joan McAlpine: You come from a local enterprise company background. If you compare the structure under the LECs with the structure in which you work with partners such as local authorities, have things improved under the current system, or was there a clarity with the LECs that allowed more of a regional focus?

Lena Wilson: There was certainly clarity, in that people knew that there was a Scottish Enterprise Forth Valley or whatever, but that was a ceiling on ambition. I was in Dumfries a couple of weeks ago talking about that challenge. Actually, we work with more companies now than we did under the previous system, and we have no fewer staff in the area. If the budget for Scottish Enterprise Dumfries and Galloway was £10 million, that was a ceiling, so we did not spend any more than that in the area. Now, there is no ceiling. If there are opportunities to spend £20 million, £30 million or £40 million in the area and we can help with that, we will devote that resource to it.

We can do more for some areas of Scotland. We can mobilise our staff all over the country and bring much more resource to bear. The results show that the impact is greater. Also, we have only one finance director, one human resources director and one chief executive rather than 13 of each. The clarity is much greater, and all the evidence supports that.

Joan McAlpine: Margaret McDougall mentioned access to finance. During the committee's inquiry on that topic at the beginning of the year, we looked at some of Scottish Enterprise's account-managed companies. There were not only sectoral discrepancies but huge regional discrepancies in access to finance among those companies. What are you doing to tackle that issue?

Lena Wilson: We are putting extra resource into that area. It is not only access to finance that is important but the way in which a lot of rural companies are run, what their ambitions are and how many of them are participating internationally. We have gained 1,500 rural leaders through a dedicated rural leadership programme. Alex Paterson talked about the importance of leadership, and we will see that coming through in people's ambition and ability, and specifically in their ability to develop a growth plan for their company.

Access to finance is not always about the availability of finance: it also depends on whether the company has a business plan that can be supported. A lot of rural businesses are smaller, and have not been through that process. We are working in that community with those businesses. Our whole approach to rural businesses is very important. The number of rural businesses in our account-managed portfolio increased last year. We are bringing as many rural businesses as we can into account management, although it will always be a challenge.

Richard Baker (North East Scotland) (Lab): What progress is being made through the Scottish Investment Bank? Dr Wilson talked at some length about Scottish Enterprise's aspiration to grow the

account management portfolio. Why is that element viewed as a priority, rather than, for example, investing more through the Scottish Investment Bank or Scottish Enterprise's co-investment strategy? What decisions do you make with regard to which area provides the greatest bang for the buck in your budget?

Lena Wilson: Account management will always come first, because companies grow the economy. The existence of a Scottish Investment Bank does not do anything—we need companies to apply it to. If we grow more companies and then grow more demand for investment, we will grow the Scottish Investment Bank accordingly.

We should remember that the Scottish Investment Bank is all about co-investment, and the leverage that we create through that. It is not just about putting public funds into companies, but about getting the market to operate. Our number 1 priority is growing the account-managed companies and growing the company base in Scotland. Everything else follows that.

Richard Baker: With regard to your activity in growing companies and your relationship with companies, you also have Co-operative Development Scotland—

Lena Wilson: Yes, of course.

Richard Baker: What potential is there for further activity by Co-operative Development Scotland? What progress is being made through that activity? Can Scottish Enterprise do more to work with businesses such as co-operatives that are looking to use non-traditional alternative business models?

Lena Wilson: Last year, CDS supported 36 employee ownership and co-op ventures; that number is up on the year before. The co-operative development and employee ownership model is very important, and we will do as much as we can to support it.

At the most recent meeting of all the industry leadership group chairs, which was chaired by John Swinney, the leaders for the industries and the regional advisory boards had a presentation on co-operatives and how that model could be applied in different sectors. That message, which is very important, is getting out there.

Each and every business model should be considered in deciding what is appropriate for a company, and co-operatives and employee ownership represent one such model.

Richard Baker: That is very encouraging. Turning to the issue of account management, you have described why it is such a priority for Scottish Enterprise. You said earlier that the evaluation of your engagement with account-managed companies was published in September. It

mentions several challenges that remain for Scottish Enterprise in its approach to account management.

The report mentions churn, which it notes has improved the figures for companies exiting account management. The figure was still deemed to be low, but I think you said that progress has been made. The report also says:

"In spite of improvements, there remain significant gaps in"

Scottish Enterprise's

"management and performance data for account managed companies."

How are you addressing that challenge and the other challenges that were outlined in the report on account-managed companies?

10:45

Lena Wilson: We take the issue seriously. I was delighted that, in a debate, the Parliament endorsed the work of Highlands and Islands Enterprise and Scottish Enterprise on account management, which is our flagship way of improving the economy.

My obsession with evidence means that I must be careful, because I am only as good as the data that I have. The quote is about improvements in what is already robust data. Last year, account-managed turnover growth from our portfolio was just under £1.4 billion, in comparison with £1 billion the year before. That is the data. A lot of that comes down to when companies produce their annual accounts, how good their business plans and accounts are and how robust all that is. The issue does not concern me; it is about natural improvements that we should make.

Richard Baker: Are those improvements ongoing?

Lena Wilson: Yes—they are flowing through.

Richard Baker: You are taking on board the comments.

Joan McAlpine mentioned the Commonwealth games. I am sure that all the witnesses agree that it is important that businesses throughout Scotland feel the benefit of the games. I understand that only two businesses in the north-east have benefited from contracts for the games—I do not know whether that figure is accurate. Are you confident that the whole of Scotland beyond Glasgow is benefiting fairly from the economic impact of the games?

Lena Wilson: I am confident that the message went out to every company that would be eligible, but I do not know whether only two in the north-east benefited. I can say that not all the

companies that are benefiting are in Glasgow—they are all over Scotland. I do not have the breakdown in front of me, but I could get it to the committee. I am confident that the opportunity has been available to every organisation in Scotland for which it is relevant.

The Convener: I will ask a supplementary to Richard Baker's question about the Scottish Investment Bank. The Scottish Government announced two or three weeks ago that the plans for the Scottish business development bank would not proceed. What was Scottish Enterprise's involvement in that?

Lena Wilson: Scottish Enterprise was involved in a working group that the Scottish Government led, which looked into the feasibility of a Scottish business development bank. We provided evidence and data and we looked at the market, at what has happened through the Scottish Investment Bank and at what would be beneficial.

The Convener: Were you disappointed that the plans did not proceed?

Lena Wilson: Again, I work on the evidence. I am not disappointed one way or the other. We need the institutions that we need to have an impact on the economy. If we can grow the Scottish Investment Bank even more because the market and the opportunities are there, that is a good thing.

We should not get too hung up on what we call something. What matters is what happens in the economy, the leverage that we get and the investment that we make in growth companies.

Alison Johnstone: We know that, globally, levels of company ownership among women are stubbornly low. That is a problem in Scotland, too. Among the 43 high-growth companies that we heard about, are a decent percentage owned by women?

Lena Wilson: As you refer to a decent percentage, I imagine that you will be disappointed with the answer. I often find myself to be the only female chief executive in a room.

Alison Johnstone: I am sure that you do.

Lena Wilson: How we bring women through is an issue. We are working with a couple of groups on getting more women to be high-impact entrepreneurs. We are mindful of that. We are also working on whether we can tailor our support more.

For years, Scottish Enterprise has gathered a lot of evidence on why women do or do not start businesses, how those businesses grow, whether they internationalise and how women access finance. We have a lot of data and there has been a lot of specialised support for women to start

businesses in the past few years, but I do not know how many of the high-growth or high-impact companies are owned by women.

Iain Scott: I do not know the answer to the specific question, but we monitor equality issues across the companies and businesses that we work with. Among businesses that are accessing our services for the first time, the number of women-owned businesses increased from 26 per cent in 2010 to 35 per cent in 2012. That is a good increase, although there is further to go.

Lena Wilson: If that is the start-up figure, the aim would be to cover the flow-through as the businesses grow and to ensure that the 30-odd per cent continues to be captured, which would bode well for the future.

Alison Johnstone: Indeed. One of your key priorities is innovation. Obviously, that has the potential to impact positively on your other key priorities. However, why do you think that it remains the case that although our universities are globally recognised for the work that they do, our businesses are not exploiting the opportunities to innovate? What is holding them back? I note that you are looking at a wider innovation approach in order to increase by 4,000 the number of Scottish companies that are actively developing new and improved products; that is a big increase. That is obviously a great challenge, but what is holding us back and how will we reach that target?

Lena Wilson: A lot of companies think that innovation is product development, prototyping or research and development. They do not think about it in terms of innovating their business model through, for example, employee ownership, inherent day-to-day innovation in the workplace or innovation around the workforce. It is about saying that innovation is not just high-falutin' R and D, although that is really important. Our business enterprise research and development—BERD—statistic on business expenditure in R and D in Scotland is not high enough, so we work extensively on that.

Almost the same position exists around internationalisation. Companies that innovate tend to export more, and companies that export more tend to innovate, so the two areas go hand in hand. It is about companies working on ambition and leadership. Innovation can be pervasive in a company and a route to growth. It is about having more innovative companies. That is why we talk about companies being innovation active, which is about more than just R and D; it is about getting the message over to a company that innovation is not just a fancy thing for other companies, but that it can do innovation, which is the route to business success.

We have 15 specialists, who are experts in all aspects of innovation, supporting 1,500 companies in Scotland. They are part of our specialist team that supports the account managers.

Alison Johnstone: On the opportunities in renewable energy, your submission states:

"We will support industry innovation to lower the cost of offshore renewable energy and help them access finance for investment."

Obviously, that is massively needed. You also say:

"In 2014-15 we will, through REIF, lever £50-£70m into renewable energy."

Is that enough?

Lena Wilson: I think that it is enough in terms of where the market is at the moment, because a lot of this is about stimulating a market. There are a lot of uncertainties over electricity market reform and that has held back some investment. The renewable energy investment fund is really important. Again, if we have to extend the REIF figure because of demand, that is a matter for Iain Scott and I to work on in terms of our business plan. However, I think that the REIF figure is sufficient just now, given the demand and what we are doing to stimulate it.

Alison Johnstone: What stage does a project have to be at to access that finance? Does it have to be so far down the road before it can tap into that investment?

Lena Wilson: No. For example, it could be a project that has just been initiated for community purposes. A lot of communities have come forward to access that investment for district heating and projects like that.

Chic Brodie: I will start with the overarching question of how we market Scotland. I bore people endlessly with the adage that the brand that has a story to tell has meaning and the brand that has meaning has an impact on business. What is the story about Scotland the brand as far as you are concerned?

Lena Wilson: I think that Scotland's brand is about premium. It is about premium in everything—for example, it is about high-class and top-notch universities, outstanding people, fantastic natural assets in wind, wave and tidal renewables, and our larder of health-enhancing food, such as our fish and meat. Scotland's brand is about added value and premium. We can see from the kind of foreign investment that we are getting that Scotland is known internationally for high quality and high value in our people and places, and all our other assets.

Alex Paterson: I feel very much the same way. I think that it is about the combination of natural

and historical values, married with the real opportunities of the future.

Chic Brodie: If we talk about opportunities for the future, we might find that we have different views about how we feed the pipeline. Alison Johnstone referred to innovation, knowledge transfer and the universities, but we might differ in our view of the variation in the regional performances of the business gateway in feeding through the winners.

Alex Paterson, you mentioned in your submission that one of HIE's priorities is

"Supporting businesses and social enterprises to shape and realise their growth aspirations".

I chair the cross-party group on social enterprise. What is a social enterprise?

Alex Paterson: Oh, goodness. I think that I wrote to you about that after my second-to-last appearance before the committee.

There are definitions of social enterprise, but I cannot give them to you off the top of my head. We work with social enterprises on exactly the same basis that we work with businesses, but the purpose is, obviously, social benefit. We account manage around 120 or 130 social enterprises across the Highlands and Islands. They have access to the full range of our services, just as any other business would have. They are a vitally important part of the regional economy.

Chic Brodie: One of the things that the social enterprise community is tussling with is the question of what is a social enterprise and what is not. In Glasgow, we now have 590 social enterprises. Their aspirations are not being fulfilled because they do not see where they fit in with regard to the pipeline and how they qualify. Some of them do not have the right support and do not qualify for access to finance. There seems to be a two-tier approach. I understand why the agencies put a lot of focus on the high-growth companies, given resources and so on, but I am not sure where your focus is in terms of picking up, through the business gateway, those small businesses or the many good social enterprises that will be the champions of the future. How do you pick them up? How do you engage with them?

Alex Paterson: There are two questions there. When it comes to picking up new businesses, part of that is done through the business gateway. We work with the business gateway to ensure that those businesses that come through the growth pipeline come out the other end into account management. I cannot remember the figure off the top of my head, but we take into account management a high percentage of the businesses that are proposed to us by the business gateway.

However, that is only one aspect of what is going on.

As was mentioned earlier, we are seeing quite a high number of good, high-growth-potential start-ups across the Highlands and Islands. They will be in account management from an early stage, given their scale and the sectors that they are in.

The third way in which we pick up new businesses is through having teams on the ground that know what is happening across the Highlands and Islands, which will identify new businesses for account management.

The same process applies to social enterprise. It is a fundamental part of our strengthening communities remit. We account manage roughly 50 communities, and many of the organisations that we work with in that regard are social enterprises. If a community has an anchor organisation—a social enterprise or other type of business—and has a plan for growth, we will support it financially and through advice, in the same way that we would with what we might call mainstream businesses.

We go beyond that, too. In the past year, we have launched a community capacity building programme, which does what it says on the tin. There are many community groups and social enterprises that need a bit of extra help to get projects off the ground and into reality in a way that will enable community benefit to be derived. We are therefore putting extra resource into that type of programme and organisation—community groups, community enterprises and social enterprises—to leverage even further than we have done before the impact that that sort of organisation can have.

I can give you a few examples in Inverness, such as New Start Highland or the social enterprise that is going to build the new hotel on Inverness campus. There are others across the Highlands and Islands. They are significant organisations and we are investing significant sums in them because they deliver economic and community benefits.

Chic Brodie: That is my problem. You are investing significant sums, but how are we ensuring that we are picking the winners and are not dissipating the many funds that are available? We are looking for an investment that will ultimately provide a significant return in the form of a high-growth company that is managed by the enterprise agencies. I do not see that engagement. I know that you support social enterprises, but I do not see the feed-through. You talk about start-ups but, when I look at survival rates, it makes me more concerned about where we are placing our investments. How can we better the current situation?

Alex Paterson: Start-ups are not our core business. That is the business of the business gateway. The point that I was making was that there are some high-growth start-ups—

Chic Brodie: Forgive me, but just so that we are clear, Lena Wilson said earlier that you are responsible. In my book, you are the economic gurus. Ultimately—in my opinion, though I might be wrong—Scotland's enterprising and economic future depends on the four people who are sitting in this room and their teams. As far as I am concerned, that includes the business gateway.

11:00

Lena Wilson: The results speak for themselves. My job and Alex Paterson's job, on behalf of the entire country, is to invest all our tax funds wisely. We need to do that by investing in the things that are most likely to generate a return for the Scottish economy, to increase GVA and to give people high-quality, sustainable jobs. That is our role. I am unapologetic about that and I am very proud of the work that is being done. I am sure that we have lots to learn and I am not saying that we will never make mistakes but, by and large, we are getting greater value than ever out of our economic development agencies.

Chic Brodie: I am not questioning that. I am questioning how you engage with and bring through the winners from the lower tiers, if you like.

Lena Wilson: It does not matter what the business model is. If a social enterprise can be a high-growth enterprise, we are blind to what the business model is.

If you are asking about better access and communication and how we can engage, perhaps that is something that we should look at, but there is absolutely nothing preventing any social enterprise with high growth potential from being supported by Scottish Enterprise. I will speak for Highlands and Islands Enterprise, too. That is a myth that I absolutely want to bust. We are there to help any and every high-growth company.

Chic Brodie: The proof of the pudding will be in the eating.

Lena Wilson: The proof of the pudding is in the eating, though.

Chic Brodie: We have talked about energy and renewable energy. One of the key ingredients for our economic growth is the skill of our people. How do you engage with the likes of Skills Development Scotland and co-ordinate your plans with theirs?

Lena Wilson: We work with them completely hand in glove, so for every key sector in Scotland

there is now an industry skills plan. We have regional skills plans, too. For renewables, oil and gas, and energy, there is a skills plan that looks at future flow, high-level skills and number of apprentices required. That work is done hand in hand with our sector-led and industry-led industry leadership groups. It is stronger than it has ever been.

The Convener: We have finished almost precisely on time, so well done. I thank the witnesses for coming along this morning and helping us with our inquiry. Perhaps we can follow up afterwards on the budget issues that we talked about at the start of the meeting.

11:02

Meeting suspended.

Members indicated agreement.

11:08

On resuming—

Subordinate Legislation

11:09

Meeting continued in private until 11:53.

Insolvency (Scotland) Amendment Rules 2014 (SSI 2014/114)

The Convener: Item 3 is consideration of a piece of subordinate legislation. [*Interruption.*] Order. The Insolvency (Scotland) Amendment Rules 2014 restate provision in the insolvency rules in relation to receivership and the process of liquidation to remove the application of provisions of the Bankruptcy (Scotland) Act 1985 and restate other rules in relation to liquidation and administration for that purpose.

If members have no issues that they wish to raise in relation to the instrument, are we content simply to note the terms of the instrument?

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