



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Monday 3 November 2014

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ECONOMY, ENERGY AND TOURISM COMMITTEE
25th 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)

Neil Francis (Scottish Enterprise)

Paul Lewis (Scottish Enterprise)

Alex Paterson (Highlands and Islands Enterprise)

Iain Scott (Scottish Enterprise)

CLERK TO THE COMMITTEE

Douglas Wands

LOCATION

The Salutation Hotel, Perth

Scottish Parliament

Economy, Energy and Tourism Committee

Monday 3 November 2014

[The Convener opened the meeting at 14:00]

Decision on Taking Business in Private

The Convener (Murdo Fraser): Good afternoon, ladies and gentlemen, and welcome to the fair city of Perth and the 25th meeting in 2014 of the Economy, Energy and Tourism Committee. I welcome to the meeting the committee members, our witnesses, to whom we will come shortly, and our guests in the public gallery.

I remind everyone to turn off or at least switch to silent all mobile phones and other electrical devices to ensure that they do not interfere with the sound equipment. We have received apologies from Richard Baker, Alison Johnstone and Marco Biagi.

Under agenda item 1, I ask committee members whether they are content to take in private item 4, which will be a discussion of the evidence that we hear today. Are members content?

Members indicated agreement.

Draft Budget Scrutiny 2015-16 (Workshop Outcomes)

14:01

The Convener: Item 2 is continuation of our draft budget scrutiny 2015-16.

This morning, the committee held a number of informal discussions with local businesses about the budget, Government support and the enterprise agencies, with a specific focus on exports. We agreed that, as part of this meeting, there would be a short report back from those three workshops. As I led one of the discussions, I will begin with some brief remarks, and then I will bring in Joan McAlpine and Mike MacKenzie.

In the workshop that I chaired, five businesses were represented, all of which were account managed by Scottish Enterprise. My Scottish Enterprise colleagues will be pleased to hear that they all had very positive things to say about the account management experience.

We spent quite a lot of time talking about the issue of exports, and the businesses were generally very positive about Scottish Development International and its support, particularly for international exhibitions and trade missions, which they felt was excellent. They were also very supportive of the on-the-ground information and networking that was being provided by SDI representatives in different markets across the world. In some cases, however, they felt there was not the level of detailed expertise that should have been available, but they appreciated that SDI had a resourcing issue and that it simply could not offer everything to everybody. They were, in general, very positive about SDI.

A number of quite interesting infrastructure issues arose in relation to exporting, the first of which was the availability of containers. For exporters, it is absolutely essential to have a supply of containers coming into Scotland. Because we as a nation tend to export more in bulk than we import, there is a mismatch between the number of containers coming in and the number going out. An interesting question for the committee to look at in our inquiry is how we might address that mismatch, because, after all, those who are exporting need both dry and refrigerated containers. There was also a question about port capacity and how to service the flow of containers.

Another issue that emerged was that of collaboration. Many small producers, particularly in areas such as food and drink, simply do not have the volume to fill containers by themselves, and they have to work with others in similar markets to

find out how that can be done. More needs to be done to join up different companies operating in the same area that want to share such resources.

Finally, an interesting question was raised about how we market the Scottish brand internationally. There was a feeling that although the brand is strong in many parts of the world it is not so strong in others, and people wondered whether we were doing enough to capitalise on the brand internationally and to market it in other parts of the world.

The session was very interesting and we got some very useful feedback for the evidence sessions that we will have today and over the coming weeks in relation to our budget scrutiny as well as our export inquiry. I will now hand over to Joan McAlpine to get some feedback on the workshop that she chaired.

Joan McAlpine (South Scotland) (SNP):

There were four companies in the group that I facilitated. Two were relatively new start-ups and two were larger, long-established companies. All were very export-orientated.

In terms of the support that the companies received, as was the case with Murdo Fraser's group, the view of the account management from Scottish Enterprise was generally positive. One of the companies had a poor relationship with Scottish Enterprise and had not had a good experience of contact with it, but the other companies had had extremely positive experiences.

There was a suggestion that something might be done with regard to how account managers are chosen, and there was a question about whether there was any possibility of feedback being given if an account manager is unable to help a company and whether any such areas of difficulty were followed up. Another point that was raised by that particular company was that, if a company does not fit into one of Scottish Enterprise's growth sectors, Scottish Enterprise does not want to know, even if the company is servicing growth sectors. Perhaps a little bit more imagination could be used there.

On the budget, there was obviously a lot of praise from the start-ups for the small business bonus that was introduced by the Scottish Government. However, it was felt that business rates can be an issue when a company wishes to expand.

I did not pick up a great deal of enthusiasm for business gateway. The support from Perth and Kinross Council was highly praised but, again, there seemed to be a belief that money from some of the start-up grants that used to be offered by the council was being withdrawn as a result of cuts.

On exports, there were some concerns that companies could be considered to be too small to get help. As the convener said in relation to the food and drink industry, collaboration was seen as the way forward. The notion of collaboration came up a lot in our group as a way of overcoming some of the difficulties that the companies faced.

On the issue of the Scottish Government's budget focusing on ways of getting women into business, it was noted that there are different networks that appeal to women, and informal networks were noted in that regard.

On the Scottish Government and Scottish Enterprise mentoring service, I understand that a lot of money is channelled through the chambers of commerce. One of our contributors spoke about a case in which an extremely senior businessman offered his services as a mentor but the chamber did not get back to him for more than a year—I should note that it was not Perthshire Chamber of Commerce. The committee has previously talked about the money that is going into mentoring as being a success, but it is clearly not a success if people are not contacted for a year.

One message that came out strongly from our group was that investment in digital platforms can pay great dividends in developing exports. Obviously, in terms of where the money goes, that was believed to be worth while.

With regard to other concrete suggestions, the United Kingdom Government's immigration policy was criticised by companies that are training foreign nationals, as there are big issues with visas. It was also suggested that a portal for information about customs and regulations in various export markets would be useful for companies.

There are a few other points that I will throw into the mix, although they do not fit into the broader themes.

There was a feeling from the aerospace industry that Scotland is falling behind in the development of composites and that Northern Ireland is stealing a march on us. It was also felt that large international companies that work in Scotland are not procuring in Scotland. If there is a way that the enterprise companies could encourage them to do that, that would be helpful. Finally, engineering companies outwith the oil and gas sector are finding an increasing problem in retaining and recruiting staff in circumstances in which they are in competition with the oil and gas sector.

The Convener: Thank you. Mike MacKenzie, will you report on your workshop?

Mike MacKenzie (Highlands and Islands) (SNP): Our group covered a lot of similar issues, but people also made some different points. There

is a feeling that Scotland allocates fewer resources to assisting businesses than other countries do. A number of participants related experiences of being on trade missions at which Scotland had a 3m by 2m stand whereas comparable countries had a whole floor. That leads us to ask whether we are putting as much resource into increasing our exports as other countries do.

We heard a lot of praise for Scottish Enterprise's efforts to help businesses. We also heard a criticism, in that even businesses that ended up being account managed found it difficult to speak to Scottish Enterprise. Knocking on Scottish Enterprise's door did not seem to be sufficient; people had to kick the door down, but when they had done that—lo and behold—Scottish Enterprise was only too pleased to talk to them. Maybe the lock needs to be oiled, because companies said that once they had got through the door the reception that they got was warm and helpful.

People expressed concern about the pipeline of support that runs from the initial assistance from business gateway to support from Scottish Enterprise. It was suggested that if we were making an analogy with Scottish Water's pipeline we would say that there are some leaks. The initial supply could be larger, and the force and volume of the water that comes out of the tap at the other end of the pipeline could certainly be improved. I realise that that is not necessarily all in Scottish Enterprise's scope; it is about the business gateway partnership.

There was a lot of criticism of local authorities for not being as business friendly as they ought to be. That is slightly outwith the scope of this afternoon's conversation, but I thought it would be worth making the point, all the more because Scottish Enterprise, in its evidence, refers to the necessity of what it calls "extreme collaboration", which is an interesting term. I will be interested to hear more about extreme collaboration later.

Similar points were made about transport infrastructure and the haulage industry's capacity, in the context of businesses that want to export to other parts of the UK. In addition, a number of the bigger exporters said that an inhibiting factor is the lack of deep-water vessels that go between Scotland and other parts of the world.

It was suggested that there is scope to assist small businesses in assembling the bulk at one end of the export pipeline, as well as breaking it at the other end. That was an interesting point, which we might explore.

I think that that is probably all, convener.

The Convener: Thank you. We have had useful feedback from all the groups, on topics that we can explore further.

Margaret McDougall (West Scotland) (Lab): I was on the same group as Mike MacKenzie. I would like to add a couple of things.

There was comment about the need for better links between Government departments, given that exports do not just come under the heading "economy" but relate to infrastructure, for example. People said that there is not enough joined-up thinking between Government departments to enable protocols to be set up. For example, we heard that an opportunity to do business in Russia had been missed recently—I do not want to say in which field, although it was in the food and drink sector—and that other European countries had gained because protocols had been set up much more quickly. That was a lost opportunity for the sector.

We also heard that there should be more interaction between buyers and producers. The supply line needs to improve.

The Convener: Thank you.

Draft Budget Scrutiny 2015-16

14:15

The Convener: Item 3 is to continue our scrutiny of the draft budget 2015-16. We have two panels this afternoon.

The first panel is from Scottish Enterprise. We are joined by Paul Lewis, managing director for operations for sectors, commercialisation and investment; Iain Scott, chief financial officer; and Neil Francis, international operations director. Welcome to you all.

Before we ask questions, would you like to say something by way of introduction, Mr Lewis?

Paul Lewis (Scottish Enterprise): Thank you for inviting us here today, convener. We are delighted to be able to share with you our thoughts on the progress that we are making in relation to this year's activities and investments, as well as some of our initial thoughts on proposals for the 2015-16 budget, which is under discussion today. Later this week, Iain Scott and I will be talking to our own board about what that budget means for our priorities.

I would also like to express my thanks for that initial feedback. It is enormously helpful to hear the feedback that the committee is receiving from businesses in the Perth area. As you have said, we work with a lot of companies in the area through account management and through our wider engagement, particularly in sectors such as food and drink and tourism, in which the Perth and Kinross area has a particularly strong contribution to make to the Scottish economy. It is great to hear the positive feedback, as well as feedback on areas that we need to focus on, and I am happy to pick up on some of what was said during the conversation.

The submission that we have shared with you tries to do two things. It outlines the progress that we have made since the previous appearance of Iain Scott and Lena Wilson at the committee in terms of our outcomes with the Scottish economy, and it also sets out some initial thoughts on areas of progress. I would like to highlight a few things that are pertinent to the agenda that the committee has been discussing in relation to exports and broader internationalisation of the Scottish economy, which is a key challenge.

First, we have continued to see strong progress in relation to Scotland's position as a location for foreign direct investment. The outcome that we saw in 2013-14 made it a strong year for Scotland and a record year in relation to the number of projects over the past 16 years. We continued to be the leading location for research and

development investment in the UK by some margin, and it is the fourth year out of five that we have achieved that particular position. We are also the second most successful location outwith London for inward investment, so we clearly have a strong track record in that area. That is continuing with this year's activity.

Secondly, in relation to investment and early-stage investment in particular, it has been a strong year for Scotland overall in the risk capital market that is important for high-growth start-up companies. That has been translated into our own activity through the Scottish Investment Bank, which is making significant levels of investment and seeing substantial levels of private sector leverage on the back of that. As you have said, there has been good progress across our account management base with the companies that we work with most intensively and which have significant growth potential. We have seen significant turnover growth added to those companies in the past year. Encouragingly, more of those companies are looking at international growth as core to their own future, which is a point that we will come back to.

The final thing to say about the current year is that it is a hugely important year for Scotland. We have been in the world's eyes with the Commonwealth games and the Ryder cup, and we will be looking to build on that platform, as we did when those two events took place earlier in the year.

I shall finish by mentioning a couple of points that are worth thinking about for next year and some areas of emphasis in which we can continue to push from stronger growth and more international competitiveness in Scotland. The first is the issue of helping more companies to access new markets. We need both more exporters and more international orientation in our company base. We also need to think about how to help many of those companies to access new markets, particularly some of the faster growing markets that do not currently contribute a huge amount to our export sales.

The second is the need to work to stimulate greater levels of innovation in the Scottish company base. We have a reasonable level of research and development in a small base of our companies, and an increasing amount of innovation is happening. What we want to see is more innovation taking place in the company base, because our evidence demonstrates that the more innovative companies are the more international they are, and vice versa. They are closely linked as drivers of the economy.

Finally, we must continue to invest in the sectors in which we see significant opportunity for growth, particularly on the international stage.

I hope that that gives you a flavour of what we have achieved so far and where we are looking to focus. We are happy to take comments and questions from members.

The Convener: Thank you, Mr Lewis. That is helpful and you have touched on a whole range of issues that I am sure we will tease out in the course of the session.

We have between 45 and 50 minutes for this part of the meeting, so I remind members to keep their questions short and to the point. Answers that are also short and to the point would be helpful; feel free to bring in your colleagues as appropriate—whichever you think is best placed to answer.

Paul Lewis: I will do so.

The Convener: The issue of internationalisation and exports is a focus for the committee. With regard to the draft budget for the year ahead, I see that the internationalisation total increases by 1 per cent in cash terms, which will be a cut in real terms. Given all that we have talked about with regard to its importance, is it appropriate to be seeing a real-terms cut in the amount of money that you are putting into support for exporting?

Paul Lewis: Iain Scott will talk about the budget, and I will talk about the policy context.

Iain Scott (Scottish Enterprise): It would be excellent if we could increase all the areas of our business in real terms as well as in cash terms, but that option is not available to us and we need to set some priorities.

Internationalisation is very much towards the top of that list of priorities. Obviously, it is not right at the top, or there would be a significant increase in that line, but we have been investing in the area significantly in the past couple of years and there has been an increase in relation to the previous history. As Paul Scott says, we are having further discussions with the board of Scottish Enterprise this week and through to the final budget in March, and the issue will be part of those discussions. We would love to be able to put more money into the area, but what is there at the moment is what we assess that we have available for that priority.

Paul Lewis: As you say, there is a marginal increase of 1 per cent in the internationalisation budget this year. Over the past few years there has been a significant increase in the amount of resources that Scottish Enterprise has put into internationalisation, and there has been a quite substantial shift in the priority that we have given the area in the past four or five years. We now have the budget to the appropriate size for the challenge that we have. One of the indicators of that is that we have increased our international

footprint from 20 offices to 28 offices, which allows us to access new markets.

In our submission, we draw out certain issues. I do not wish to confuse the committee but much of our activity to stimulate a more international outlook in the company base resides in places other than the internationalisation budget line, important though that is. As I mentioned, the evaluation evidence from our account management survey has pointed out strongly that innovation is a driver of international growth, and vice versa. I would look to draw out other budget lines as contributing to the international objective, as well as the international line itself.

The Convener: That context is helpful.

According to a report in *The Herald* last month, £13 million of bad investments was written off by Scottish Enterprise last year. That is a 40 per cent increase on the previous year and represents more than 5 per cent of your overall budget. Should the committee be concerned that you are having to write off such a large sum of failed investments?

Paul Lewis: Let me deal with the nature of that activity. On the day that that report came out, I was hosting a dinner in Glasgow for our investment partners from Scotland, the United Kingdom and around the world. They were celebrating the fact that the risk capital market in Scotland had been enormously vibrant in the past year.

We take write-offs seriously. Our position is that we see them as an inevitable part of the activity in relation to early-stage finance. Not all of the companies that we support through the Scottish Investment Bank—alongside the private sector, I emphasise—will succeed, and there will inevitably be some degree of write-off. Indeed, if there were no write-offs, you could argue that the private sector could handle things itself.

We are definitely not overly concerned about the fact that write-offs exist. In any one year, the nature of the write-offs depends on a number of things, such as what is happening in the wider economy and what is happening in specific companies. As we get into the detail of those write-offs, we can see that many of them are the result of a long process of administration and, ultimately, decisions by the administrator to write off a particular investment and close down a company, so they have not occurred in any one particular year.

My sense is that there is no particular pattern emerging. Clearly, however, we have to stay close to the fact that write-offs have gone up in overall terms.

Iain Scott: If you looked at the comments on the online article on *The Herald's* website, you would have seen that most of them said that even more than that sum should be being written off, as that is the nature of the business that Scottish Enterprise is engaged in. Market failure is built into the early-stage risk capital market; that is why Scottish Enterprise is involved.

Personally, as the finance director, I do not want there to be any more write-offs than that, but I certainly do not think that the committee should be worried about the number of write-offs that there are. The number of successes by far outweighs the number of write-offs.

The Convener: I will always be wary of reading the comments section on any online newspaper article. Heaven knows what you might find.

I hear what you have to say about the issue, but have you reviewed your processes as a result of the figures? Have you looked at your due diligence?

Paul Lewis: Yes, we continually consider the process that we apply. The investment model that we have in Scotland is widely recognised as being a good model. Indeed, the European Commission has said that it is leading practice, and it has been replicated across the world. The model is partnered. We follow money that the private sector is prepared to invest in companies, and we rely on those partners to a large extent.

Our diligence relates to the deals and the partners, and we regularly review those partners to spot any trends—such as, for instance, whether any partners are having more difficulty in investments that they make—and we try to understand why those trends might have arisen.

Chic Brodie (South Scotland) (SNP): My questions will be robust, as you would expect. On Friday, I had a meeting with one of your employees that covered about 16 issues. I received several replies this morning. He and his associates are to be commended on their responses to some of our questions.

On the write-offs, I understand what you say about the length of liquidation decision making and so on. However, over the past five years, the situation each year has got worse—we have gone from £2.5 million in write-offs at the beginning of the period and have ended up, last year, with £13.1 million in write-offs.

Page 3 of the Scottish Enterprise annual report and accounts says that

“Scottish Enterprise focuses on industry sectors identified by the Government Economic Strategy as offering the opportunity to strengthen Scotland’s competitive advantage”,

and lists the Government’s priorities. On that basis, why would we invest in a company called TalentNation, which was a social networking site focusing on sport? I understand that £1.3 million was written off as a consequence of that investment.

Yesterday’s *Herald* said that Scottish Enterprise is subsidising a London firm that has expensive offices in the City, which will offer a one-stop shop for accounting, insurance, legal and human resources services. I know several companies in Scotland that operate in those areas and are of high international quality. Are you sure that you are doing due diligence with regard to such investments?

Paul Lewis: I will ask Neil Francis to deal with that particular example, in a minute.

On the first point, you are right to say that we focus a lot of our investment on key sectors. Indeed, our investment activity is dominated by three sectors: energy, life sciences and technology. TalentNation, which is one of the write-offs that happened this year—although the company entered administration some years ago—was operating in the technology sector, using social media. That investment was made in the early days of social media. Although, in Scotland, we have seen companies such as TalentNation fail to exploit that opportunity, we have also seen other companies succeed. I draw your attention to recent successful fundraising by a company called FanDuel, in which, I am pleased to say, we are also an investor. It has just raised \$50 million. The company is not that well known in Scotland; it offers fantasy sports services in North America, where it is enormously successful. We do not see social media as a non-investable marketplace. There are some good companies coming out of that area.

Chic Brodie: Forgive me, Mr Lewis. I was not saying that we should not invest in social media. There is a national economic strategy and we should by all means involve ourselves in the technology marketplace, where we will, of course, see successes. However, when we are looking at focusing our spending on activities that support internationalisation in particular, I find it inexplicable that we would invest in something like TalentNation.

14:30

That, in turn, raises the question of how decisions are arrived at and who presses the button to give companies £2.7 million or, in the case of Geniac, a £1.1 million award through regional selective assistance. We know that RSA is only released in tranches subject to employment priorities being met, but there are companies in

Scotland that are eminently capable of doing the work. When you run a check on Geniac, you find that its address is in the City of London, which means that we are in effect putting some of that money into its offices down there. I am not saying that we should not be expansive, but who is checking all this?

Paul Lewis: Neil Francis will say something about Geniac, and then we will come back to the appraisal process.

Neil Francis (Scottish Enterprise): As Paul Lewis made clear at the beginning of the session, our internationalisation approach has two strands. We have said quite a bit about the exporting strand, but there is also an investment strand and, as we know, it is pretty important that we attract new investors into Scotland to create employment. On the whole, foreign-owned companies have an upgrading impact on the Scottish economy.

As for the specific case that Chic Brodie has highlighted, I want to make it very clear that our appraisal process looks at displacement issues, because we do not want to crowd out our existing companies in order to secure investment. As has been recognised, the assistance that is offered relates to the value and the number of jobs that are created, and the payments are made after those jobs are evidenced—

Chic Brodie: Are you telling me that creating 385 jobs in the financial services support sector in Glasgow is not going to displace jobs elsewhere?

Neil Francis: No. Part of our analysis involves finding out whether such jobs are net additional jobs and whether the things that will be provided are not being provided at the moment. As you will know, a number of partnerships are involved in delivery of the company's business plan, with a Scotland-based company involved in the legal services.

On your other point, I simply point out that business and financial services are a key sector for us, and it is important that we remain competitive with regard to those types of projects. Such projects are won in competition with other parts of the UK, and we should be competing for and securing as many of those projects as possible if we think that they offer a good fit with our strategic approach to the sector, and provide additional value.

Chic Brodie: I might come back to the issue, convener.

The Convener: Do you wish to add anything, Mr Lewis?

Paul Lewis: I just want to return to Neil Francis's point that in all of our appraisals we look at the market opportunity and the proposed business plan, and then we make our assessment

of the displacement factors, whether the proposal will impact on other companies that are already operating in that space and what the gap is. We also have to make a judgment about what would happen anyway, if we did not provide support. Our intervention will be appropriate to the size of the net benefit that we get rather than to the gross number of jobs that might be created here, and we always seek to apply that approach. If we can get those things to happen without having to provide any financial support, that is a very good outcome.

Chic Brodie: I seem to deal with more companies now than I did in my previous existence, but you will have noticed my frustration that, on the one hand, a company cannot get £1.1 million to develop an abattoir to produce bacon for export to China while, on the other hand, £1.3 million can be lost on sports social media. We will no doubt keep a close eye on Geniac and find out what implications it will have for performance.

Looking at some of the numbers, I note that in 2008-09 there were three write-offs with a loss of £80,000 while last year there were 75 write-offs totalling £13.1 million.

The Convener: To be fair, Mr Brodie, I suspect that that is partly because of the lag time for some of the firms involved.

Chic Brodie: I did say at the beginning, convener—

The Convener: That probably explains why the figures are higher now.

Chic Brodie: I absolutely understand that, but having been involved in several liquidations—I should say that I did not create them—I know that certain actions could be taken to mitigate the ultimate loss.

The Convener: Okay. I do not want to spend all afternoon on this, because we have other issues to discuss.

Mr MacKenzie, did you want to ask a supplementary?

Mike MacKenzie: Yes, convener, and I would like to be slightly contrary in commending Scottish Enterprise on taking a slightly less risk-averse approach. After all, Scottish business is often characterised as being too risk averse. I am not, of course, making any comment on the detail, but I think that it takes courage and leadership to be less risk averse. Indeed, at a certain level, we would all agree that we need to be a bit less risk averse, which is why I find it a wee bit unfortunate that when you show such courage and leadership we jump down your throats.

I am not disagreeing with Mr Brodie's points—

Chic Brodie: Scottish Enterprise is not a business. It supports businesses.

Mike MacKenzie: Nevertheless, I commend its courage.

I am interested in a slightly different issue that brings me back to Mr Lewis's point about the link between innovation and internationalisation. Is there really a causal link between the two things? If so, which is the chicken and which is the egg? Is that a bit of an oversimplification? If not, does it really tell us anything helpful?

"Innovation" is one of these soft, fuzzy, subjective terms. Is there some robust analysis of it that you can share with the committee, and can you spend a minute or two on the issue in order to increase our understanding of what you are talking about?

Paul Lewis: I am happy to do so. I am very conscious that "innovation" is part of the lexicon of economic development. You are right to suggest that it can be all things to all people.

The evidence base that I referred to earlier with regard to our account management evaluation has really helped to drive our focus on where we get the most impact. We know that that produces a very good return on our investment—for every £1 that we put in, those companies put £6 back into the economy—and the evidence shows that companies that are more international and which are better at innovation are having more of an impact on the economy. They are growing faster and are adding more to their bottom line.

What we do not know is the answer to the question that you asked: which is the chicken and which is the egg? We do not have evidence that says one way or the other that international businesses have to be more innovative or that innovation in itself and coming up with new ideas, products and services make businesses look to new markets. We do not know whether there is a causal relationship between the two things, but evidence shows that both are very heavily correlated with greater impact and growth at company level.

Mike MacKenzie: Lots of people with blue eyes have heart attacks, but that does not mean that there is any relationship between the two factors.

Paul Lewis: We believe that there is a relationship between innovation and internationalisation. We have other evidence on innovation—in other words, companies that are able to exploit their ideas successfully and turn them into sales. Innovation includes, but is not just about, research and development. Although it includes technology, it is not just about technology creation but about its exploitation, and it can be about new services and business models, which brings us back to our earlier discussion on collaboration.

We capture all that under the banner of innovation. Companies can do a broad range of things to bring forward new products, services and offerings to their customer base, and we are seeking to focus on that broader approach to innovation that goes well beyond technology. Lots of evidence from organisations such as Nesta points to the fact that companies that are more innovative are more productive. It is not a blue eyes and heart attack thing; there is some correlation between innovation and internationalisation. However, as we do not know which of them causes growth, we need to focus our activities on both, which is why we are emphasising both in our plans.

Mike MacKenzie: Thank you.

Dennis Robertson (Aberdeenshire West) (SNP): I will change direction slightly.

We have had record investment: Scotland has done extremely well in attracting investment and in its R and D sector. How do we turn round the success that we have had with that investment in exports and use it to support small to medium-sized enterprises? It appears from some evidence that has been submitted that a significant percentage of SMEs are not breaking into the export market and that those in Scotland are doing less well than those in the rest of the UK. Do you know the reason for that?

Paul Lewis: I ask Neil Francis to talk about that.

Neil Francis: I think that you are right. We were chatting over lunch about some of the difficulties with some of the data on exports, but Dennis Robertson is right about SMEs. About 15 per cent of Scottish SMEs are exporting, compared with about 19 per cent of SMEs in the UK as a whole and perhaps as much as 25 per cent across the European Union.

We know that we need to do more to support our SMEs to internationalise. In the evidence that we submitted we said that we are consolidated in too few sectors, too few companies and too few markets. A hundred of our companies account for about 60 per cent of the total value of our exports. We have to do more.

Dennis Robertson: Do the top five account for 50 per cent?

Neil Francis: The top five sectors account for 50 per cent.

We know the journey that all companies go on, in terms of their international experience. We have split that into three elements. First, we have to lift companies' ambition and awareness of what international trade opportunities have to offer. Secondly, we have to help to build their capacity and capability to undertake international activity. Thirdly, we have to help companies execute and

exploit those opportunities. We need to carry on working with companies and support them on their journey.

Why are we doing slightly less well than the rest of the UK? We do not have a clear picture of that, but we do know the things that we have to do in general, and we are focused on doing them. Through our smart exporter programme we have, over the past four years or so, supported 4,700 companies to start that journey.

Paul Lewis: I go back to the point that Mike MacKenzie raised about innovation and internationalisation. We know that companies in Scotland tend to innovate for certain reasons, some of which tend to be about cost reduction and servicing local markets. Maybe something in the nature of the activity that is happening in firms themselves is making them less prone to innovate and invest in new market entry. We need to look at both ends of this particular pipeline.

Dennis Robertson: Could it be that you have been concentrating on the other sectors that have higher returns rather than on SMEs, and that SMEs have been short changed?

Neil Francis: I am not sure that that is the case. Our starting point is the Scottish Government's ambition of raising the value of our exports by 50 per cent by 2017. In trying to achieve that, we recognise that we have to do two main things. One is to get a lot more companies to start exporting and the second is to support companies that have the greatest potential to increase their international trade significantly. We are tackling both those elements in equal measure.

14:45

Dennis Robertson: You have set yourself a target for that, have you not?

Neil Francis: Sorry?

Dennis Robertson: You have set yourself a target for increasing the number of companies.

Paul Lewis: Yes.

Dennis Robertson: Over the next five years.

Paul Lewis: Yes.

Dennis Robertson: Is the number increasing from around 5,000 to 13,000?

Neil Francis: I am sorry—can you repeat that?

Dennis Robertson: I think your initial target was to support around 5,000 SMEs in the export market, and you have set a target to increase that over the next five years.

Chic Brodie: The figure in 2012 was 4,274.

Neil Francis: The target is 8,000 to 10,000 over that five-year period.

Dennis Robertson: Is that achievable?

Neil Francis: I think so. We are making significant progress with that. As Chic Brodie has just pointed out, we have done 4,700 so far.

Dennis Robertson: Even if the figure were 8,000, that would be roughly 1,600 a year.

Neil Francis: Yes.

Dennis Robertson: Is that achievable?

Neil Francis: I think that it is. It is a stretch target—it is not easy. Every year, it gets progressively harder because these are unique companies, and we do not count the same company twice. However, it is right that we set some ambitious targets for ourselves as a country. If we do not, we will not make the progress that we need to.

The other point about starting companies off on their journey to international trade is that it is the responsibility of a lot of people in Scotland, not just Scottish Enterprise or Scottish Development International. We want our private sector partners and our other public sector partners to contribute. We need that kind of joined-up approach if we are going to fulfil some of the ambitions that we have set.

Dennis Robertson: How do you help SMEs realise that ambition of exporting their goods?

Neil Francis: I hope that I have understood your question—please correct me if I have not—but we have different products and services to support companies during each of the three phases of the international journey: awareness and ambition; capability and capacity; and exploit and execution.

Paul Lewis: Interestingly, a large proportion of our account-managed base are SMEs; in fact, 70 per cent of account-managed companies fall into that category, and we are already heavily engaged with them. Companies that we stimulate interest in can get support from Scottish Enterprise and the business gateway to help them progress their plans to a point at which they can realise innovation overseas.

Dennis Robertson: I will not use Mike MacKenzie's analogy of the door, but we have already heard about the initial stage, and you have just talked about awareness, opportunities and ambition. Are you doing enough at the start to raise awareness and to enable companies to see you as the most appropriate pathway for expanding their business?

Neil Francis: We are doing a lot, but we can never do enough. Our experience, especially with

the smart exporter programme and the 4,700 companies that have been supported, suggests that people are finding their way to us quite easily. That programme has good recognition across the full spectrum of the business base.

Paul Lewis: It is a challenge that we can take away with us, and we can ask ourselves whether we are doing enough to make the door easy enough for people to come through and whether the interface with all the companies that we are engaging with—those that we engage with in our day-to-day activity and those that come to us through the business gateway—is smooth enough and working well.

Dennis Robertson: Thank you.

Mike MacKenzie: I am still a bit concerned that we are in touchy-feely, subjective territory. I used to run a very innovative company; for 30 years, our product came in a blue box, and then we changed the box to a lighter shade of blue. I just think that these terms are subjective.

I remember that three years ago, at this exact stage of the committee's budget scrutiny, I complimented Lena Wilson on the methodology that Scottish Enterprise was using both to evaluate its performance and to answer the question whether, in a parallel universe where there was no Scottish Enterprise, we would notice any difference. That methodology was robust and was generally acclaimed; indeed, if I remember correctly, I believe that it was bought by some English local authorities.

I paid tribute to all that and thought that, finally, we had moved into territory where we were robustly examining what we were doing and making a critical evaluation that was not just entirely subjective. I am therefore very sorry that, thus far this afternoon, we seem to have departed entirely from that methodology and are just talking in touchy-feely terms. It would greatly assist our budget inquiry if we could go one stage further. If we could go back to that methodology and trace it back into budget lines, we could have a more interesting conversation, but you are not helping us much this afternoon.

Iain Scott: I will try to reassure you, Mike. We are continuing to employ that robust evaluation methodology right across the spectrum of everything we do in Scottish Enterprise. Paul Lewis has mentioned the account management evaluation that came out, I think, last year, and we have learned a significant amount from that, particularly about the link between innovation and internationalisation.

The smart exporter programme that Neil Francis has mentioned has existed for three years now; a robust evaluation of that single programme has led to its being refocused, and Neil will be able to give

some details of how we are changing it to make it even better for the companies that we are working with. We are continuing to make those evaluations, as we did back in the days when Lena Wilson was explaining them to the committee. We are learning from the process, and we are making positive changes to the programmes that we have put in place.

Mike MacKenzie: Will you take that one step further for me, please, and tell me how all of that relates to this year's budget?

Iain Scott: In the macro sense, our economics and evaluation team is continuing to look at the returns that we are making in all the areas that we are allocating money to. The account management evaluation picked up on a number of different areas in that respect, and we are continuing to use that approach to look at how we invest money. We want to focus on internationalisation, which is why we have managed to keep that side of things up at its previous cash levels, even with the slightly reduced income that has been made available to us this year. We are still using that same methodology.

Mike MacKenzie: Bearing in mind that we are still just at the draft budget stage, can you tell us whether, in your feedback to Mr Swinney for his preparation of the budget, you have highlighted any areas that you feel you need to put more resource into but you cannot, or areas where you feel, when you feed the information into your model, that the money will not make all that much difference?

Iain Scott: We work quite closely with the sponsor team in the Scottish Government, and we give it every opportunity to give us even more money every year. We set out our plans and what we can get back from them, and it is obviously up to the Government—and, as far as our area is concerned, Mr Swinney in particular—to decide where that money goes. We make the best of whatever cash is available to us, but we will continue to work with the sponsor team on that.

The key thing that has developed over the past few years is the integrated nature of everything that we do. Back in the days when we were talking about what was effectively a list of projects and the return that we were getting on them, one could almost say, "Well, I'll do exporting this year" or "I'll do innovation this year." However, growth in companies does not work that way. The companies that are beginning to export are doing so because of the range of activities that we are doing with them, but the question is whether they start to export, say, three years from now because of Neil Francis's smart exporter project, because they have been able to develop through an innovation project set up by one of our other

colleagues a new product that they can sell or because of our leadership development work and the learning journey that we have taken leaders of the organisations in question on, as a result of which they have got it into their heads that exporting is something that they can do. We need to keep that broad spectrum of things that we do.

Mike MacKenzie: I get the point. With the convener's indulgence, I will ask one more question.

You have a model that informs your work well and lets you know whether you are putting the money into the right things and wringing maximum value from each. I realise that it has been in operation for some time, and that doing a wee bit of fine tuning as we go—trimming a wee sail here, say, and another there—will allow the ship to sail more sweetly. However, when I look at this year's budget, I see a massive change, and I would dearly like a proper, candid explanation of why, all of a sudden, you appear to have decided that renewable energy is a complete waste of time.

Paul Lewis: I reassure you that that is not the conclusion that should be drawn from those figures, and I want to echo Iain Scott's articulation of the evidence base and the model that we use to inform our priorities and judge the investments that we make.

As an agency, we exist to invest in things that can bring growth into the economy, and renewables is one of those. There has been positive progress in renewables, but the market for renewable energy is progressing at a much slower rate than many people in Government—and, indeed, the private sector—expected. The change in investment profile that you will see, particularly in some of the renewables R and D programmes, reflects the fact that the market does not yet exist to justify our putting that money into projects.

We continue to work intensively with the industry. As you will see in our information, very good progress is being made in some aspects of the renewables sector; for instance, the community-owned onshore renewables sector is working well. However, the market has not played out as quickly as forecast and that, in turn, plays out in our investment profile, particularly in the supply-chain investments for the offshore renewables industry, for next year as well as this year.

Mike MacKenzie: The Office of the Gas and Electricity Markets has warned us that the lights are in danger of going out and yet you are telling me that there is no market for renewable energy. How can that be?

Paul Lewis: I do not want to get into energy policy; I am talking about renewables as an economic development opportunity. Companies

are making decisions partly in response to the scale of the changes to the UK market that the Department of Energy and Climate Change has made and the newness, if not uncertainty, of electricity market reform and the contracts for difference processes. That has a knock-on effect on the timing of their contracts with their supply chain.

That is where we come in. We try to land major investments from supply-chain companies, but that is taking longer because the overall market is playing out more slowly. I am in no way commenting on the merits or otherwise of the market.

Mike MacKenzie: Thank you. You will forgive me for the—

The Convener: Thank you, Mr MacKenzie. We really need to move on.

Margaret McDougall: Good afternoon, gentlemen. I want to ask about your income analysis. I notice that EU funding has increased by 179 per cent. What do you intend to spend that on?

Iain Scott: That overall increase is purely a result of our moving from the previous European programme to the new one. In any changeover, there is normally a tail-off towards the tail end of one programme, and it takes some time for the new ones to start up. There is a significant increase in that budget line because we will be in the first full year of the new programme as we go into 2015-16. Through the management of those European funds, we will have a better idea of what we will get back from the money.

We look to get European funding from three main areas: the investment side of things; what I will call company growth—the other chaps can help me with the terminology—and, particularly, innovation. Those are the three main areas of the programme from which we will get back resources, which will then go towards the range of expenditure that is in the expenditure list that you have.

Neil Francis: The international side of things will be a key element of the competitive business programme that Iain Scott mentioned. We have two programmes that form part of that. One is the smart exporter programme, which was mentioned earlier and which has now come to an end. We have reviewed and reconfigured it, and we have taken on that learning to launch a new programme called Scot exporter, which is aimed at supporting new exporters. That would be a core part of growth.

15:00

The other part is, as we have outlined in our submission, all about the international market in general. We have already discussed the issue of consolidation in too few markets, and we know that our current performance in some of the fastest-growing markets is quite low. We want to look at how we can accelerate things in the markets of the middle east, India and China, and our other new initiative, which will form part of the European programme, is a high-growth markets desk unit that will consolidate all the knowledge that we have in Scotland about those particular markets and deploy that to enable companies to access those markets more quickly than they currently do.

Chic Brodie: Can I ask a supplementary on that, convener?

The Convener: Chic Brodie has a supplementary. Margaret, do you have questions on the same theme that you want to pursue first?

Margaret McDougall: I have a question about what you have called the international desk. This morning, we heard from companies about just how difficult the whole process was; as Mike MacKenzie has mentioned, they had attended conferences and expos where Scotland had just a tiny display. Will you be addressing that with your additional European money?

Another issue with regard to international development is that companies need assistance with protocols and databases that provide all the necessary information. One company that we spoke to this morning said that it had a database for the business that it was in because it had been running for 20 years, but the market is very diverse. Surely for companies hoping to export there should be a database where they can find out the requirements for exporting, say, food or health equipment. Where is the information on all the protocols and legislation that companies need to consider before exporting? Does it exist?

Neil Francis: That information is not consolidated in one place. It all depends on the markets that companies want to export to; after all, even within a country, there can be differences. For example, people normally think of the United States as a single market but, depending on which sector we are talking about, the legislation and regulations might be very different from state to state.

Of course, our 28 offices are in the markets that we feel offer the best opportunity in the round for Scotland, and we can provide a lot of that market insight and business intelligence. In addition, resources are available through the Foreign and Commonwealth Office and UK Trade and Investment for those other markets.

Margaret McDougall: So can an individual company wishing to export contact the desk in China or North America and ask about what they need and the legislation that they need to cover?

Iain Scott: Over the past few years, we have concentrated on a sectoral approach to information about exporting. A company in the food and drink sector has a lot of information available to it on how to export food and drink across the world. What Neil Francis is saying is that we are now adding to that—not, I stress, taking anything away—by focusing geographically on the three main growth areas, and we will also have information in place for those areas. The desks that we are talking about will be located in Scotland—in other words, the information will be available in Scotland—but the information that they provide will be about those export markets.

Recently, leadership colleagues and I have been talking about how we can ramp up our digital strategy within our organisation. Although for a long time now we have had websites that contain certain information, we genuinely believe that we can use digital technology to take things to a much higher level. The two exemplar projects that we will put in place first of all will cover—surprise, surprise—innovation and internationalisation, both of which we have already discussed. It will probably take us another 12 months to get anything in place—it will certainly happen within the next 12 months—but we are investing a lot of that background resource in our digital support products to turn what are fairly straightforward websites into something that will have much more added value for the companies that need that information. I am sure that, when we see the outcome of that, companies will be telling us that they can access that information much more easily than they can at the moment.

Paul Lewis: We also operate on behalf of Scottish Enterprise and other partners an inquiry fulfilment and research service that is the go-to place for any company in Scotland that wants information on almost any subject. It has analysts that can pull out the relevant information for those companies. I commend that operation, which is a huge resource for the business base.

Margaret McDougall: I do not know whether all the companies know about that.

Paul Lewis: We can ensure that it forms part of the awareness raising that we mentioned earlier.

Iain Scott: The people in question are those who answer the phones when someone calls the generic Scottish Enterprise number. We just need to ensure that they deliver that service during the first phone call.

Margaret McDougall: Absolutely.

My next question is about the encouraging dynamic growth entrepreneurs—or EDGE—fund but I think that Chic Brodie wanted to ask a supplementary.

Chic Brodie: I will come in if I may. I want to talk about European funding as I am the European rapporteur for the committee.

As an aside, I withdraw my comment about Scottish Enterprise not being a business. It is a business, but it uses public money largely to support other businesses.

You anticipate European income of £17.6 million. If I tot up the horizon 2020 programme, the trans-European transport networks programme, the competitiveness of enterprises and small and medium-sized enterprises programme and so on, it all comes to approximately €100 billion, and £17.6 million represents 0.3 per cent of that. I am not suggesting that it is easy to get money through the horizon 2020 programme, but even so—what about the activities of the *mittelstand* in Germany, which focus on something like 50 times the funds we are looking at? Why are we being so shy about going after European funds given that others are certainly not?

Iain Scott: I would not agree that we are shy about doing that—we put a lot of effort and energy into it. Our Scotland Europa team in Scotland and in Europe work very hard.

Chic Brodie: Let me ask about that. Having harassed and harangued the Cabinet Secretary for Finance, Employment and Sustainable Growth about getting European funding projects out there through Scotland Europa, I attended the first meeting in Edinburgh. How many has it held since then? How many has it held in the past 16 months?

Iain Scott: I do not know but I can guess the answer.

Chic Brodie: So can I. *[Laughter.]*

Iain Scott: Perhaps you could help us by sharing that information, Chic.

The income figure that you quoted as being in our plan is the income that Scottish Enterprise will receive directly to go towards the projects that we are running. A vast amount more European money will go directly to companies through some of the initiatives that you listed.

Chic Brodie: When I said we were shy, I was not just talking about Scottish Enterprise.

Iain Scott: I do not have the information in front of me today but if you want some analysis or estimate of how much European money comes to Scotland through all those programmes, I would be happy to get back to you on that.

Chic Brodie: I do not want you to go through a big exercise. I just think that, at all levels, we are still not fully aware of how to get that money.

Margaret McDougall: On entrepreneurial support, the EDGE fund is no longer part of the Scottish Enterprise budget. Who has it now? I know that the budget says that it will be the Scottish Government, but who will lead it?

Iain Scott: It will be led by the Hunter Foundation and RBS. As part of the new arrangements, RBS is putting about £2.5 million of additional private sector funding into the programme. We will still be a partner in the EDGE fund—I believe that we will still have a seat on the board of the new entity that will be created—but it will be led by the Hunter Foundation.

Paul Lewis: There was always Government money on top of what we received specifically to manage the EDGE fund. We ran it for the first four rounds and supported 69 companies. It was hugely successful—it was really inspiring to see entrepreneurs coming forward with ideas. However, as Iain Scott said, the idea was always to look for a model that would involve greater private sector participation. It is really encouraging that the Hunter Foundation and RBS are now going to take the project forward. Government money will now go directly to that new entity, but we will remain heavily involved: we will be on the panel and we will work with some of the companies that come out of it as part of our account-management support.

Margaret McDougall: That was my next question. You are still left with £1.6 million, so what will you do with that?

Paul Lewis: That amount will not cover the account-management support, which will come out of a separate budget line. If any company that is successful in getting EDGE funding has the ambition and the potential to achieve the growth that it is looking for and we can help it, we will work with it through account management.

Joan McAlpine asked about our sectoral focus. We will work with any company through account management, irrespective of sector. There is no barrier to companies, so clearly we need to get that message out.

The balance of entrepreneurial support comes through the work that we do with high-growth start-up companies, which often come out of the university sector. We invest in those companies to help them realise their growth potential.

The other aspect of that budget line is the work that we do on things such as the enterprise fellowships, which are helping to build academics' entrepreneurial mindset to allow them to set up new high-growth companies. It covers that kind of

activity—high-growth start-ups and enterprise fellowships—but no longer covers the EDGE programme.

Joan McAlpine: You are called Scottish Enterprise. Although Highlands and Islands Enterprise deals with the Highlands, I assume that you exist to serve the whole of Scotland. It is implicit in your name.

Paul Lewis: Yes. We have geographic responsibility for the area that we directly cover, and we run a number of programmes on a pan-Scotland basis. The Scottish manufacturing advisory service, the Scottish Investment Bank and regional flexible assistance are all Scotland-wide programmes that Scottish Enterprise runs on behalf of both Scottish Enterprise and Highlands and Islands Enterprise.

Joan McAlpine: I am a South Scotland MSP, and I have been looking at the geographical breakdown of companies that you account manage that are growth exporters. The percentage of the Scottish total of SE growth exporters that are in Dumfries and Galloway is 1.8 per cent, which is the lowest percentage in Scotland and is way behind the percentage in other rural areas. A similar breakdown for the HIE area shows that no area of the Highlands has such a low percentage of support. Why is the figure for Dumfries and Galloway only 1.8 per cent? Why is it so low?

Paul Lewis: I guess that that reflects the nature of the companies that we are working with in the account-managed base in Dumfries and Galloway. I would be keen to see that percentage increase.

Joan McAlpine: What are you doing to increase it?

Paul Lewis: As we said earlier, a big focus in our plan is on trying to put internationalisation at the forefront of the work that we do with the company base. We will look to engage with all our account-managed companies that export to help them enter new markets, and we will try to help those account-managed companies that do not export to understand how they could get into international markets.

We have seen growth, overall, in the percentage of our account-managed base that is now internationally active, and through the engagement that we have with those companies I would very much wish to grow that percentage through the work that we do. We will approach that through the things that we have spoken about today: supporting product development, new service development and market development.

Joan McAlpine: When was the last time you visited Dumfries and Galloway?

Paul Lewis: I was last down in Dumfries and Galloway probably a year ago, although I was down in the Borders last week.

Joan McAlpine: Yes. The Borders region is doing a bit better than Dumfries and Galloway.

Paul Lewis: Yes, but not because I was there last week.

Joan McAlpine: The figure for the Borders is 3.5 per cent. Although there is a Scottish Enterprise office in Dumfries it is small, and since the network was reorganised the main office has been in the Borders. Given that you take a city region approach to development, the Borders region benefits from the proximity of Edinburgh whereas Dumfries and Galloway does not have a city region to benefit from. There are very poor infrastructural links to Glasgow. What specific policies are you putting in place and what actions are you taking to deal with that?

We are in Perth just now, but I make no apologies for arguing the case for my constituents. I have brought up on a number of occasions the fact that I do not think you are doing enough for Dumfries and Galloway. It becomes a vicious circle, does it not, if there is no growth and poor infrastructure? Another of your surveys of account-managed companies that was put before the committee last year showed that, among your account-managed companies, the lowest level of access to finance in Scotland is in Dumfries and Galloway. Given the real challenges that are faced in the area, I would like to know what specific actions you are taking to remedy the situation.

15:15

Paul Lewis: When I was down in the Borders last week—

Joan McAlpine: I am not talking about the Borders; I am talking about Dumfries and Galloway.

Paul Lewis: I totally appreciate that. However, last week, we were talking about the programme of action that had been agreed with Dumfries and Galloway Council and Scottish Borders Council through the south of Scotland alliance, which the councils and the private sector are partners in. That has identified four main areas of activity in the south of Scotland. The two main opportunities in Dumfries and Galloway are around the regeneration of Stranraer, particularly around the waterfront; and the creation of the right business environment and infrastructure around the M74 corridor. Those projects are not of our invention, but we have willingly participated with our partners to say—

Joan McAlpine: Excuse me, but when I was briefed on that by your people in Dumfries, I was

in the company of someone who used to work in their team, who told me that that strategy has not changed in the past three or four years. Nothing new has been brought forward. We have been sitting on exactly the same strategy and have seen real challenges in the area in terms of outward migration and that appalling figure of 1.8 per cent.

I take this opportunity to say to you that that is just not good enough and that you need to revisit your team's work there and find a new strategy instead of recycling what you have been doing in the region for the past three to five years.

Paul Lewis: We hope that we are not recycling what is being done. As I say, the strategy is not Scottish Enterprise's alone; it is a strategy that partners in local government and industry would support. I would also say that I recognise the challenges in some of the localities that you spoke about. In fact, to draw an example, we have had a simple conversation in relation to activity in North Ayrshire, which is another part of Scotland in which there are economic challenges and participation rates have not been as high as they could be. What we have managed to do there—I commend this approach—is sit down with our local authority partners and agree that we have a shared interest in reaching companies together. Some of those companies might ultimately be ones that are best supported through the business gateway, and others might be ones that we can support through account management and other services. We have put a real focus on that, and I would be keen to replicate that model in other areas.

Joan McAlpine: I do not think that the approach is working in the area, and neither do local businesses that I speak to. For example, a highly successful, debt-free business that came to me wanted to relocate, for cost reasons, to the M74 corridor, which is part of your growth strategy for the area. However, when I brought that up with your people in Dumfries, they were not able to do anything for the company.

Paul Lewis: I am very happy to talk about that specific issue outwith this forum, if you give me the name of the company.

As I said, we recognise the opportunities that reside in Dumfries and Galloway and the opportunity that we have, with other partners, to reach more companies in the area. That would be a good thing.

Joan McAlpine: Does it bother you that your understanding is not shared by people in Dumfries and Galloway?

Paul Lewis: I am surprised that that is the feedback that you are getting from people—

Joan McAlpine: It is clear from that figure that the situation is just not good enough. That figure of 1.8 per cent is the lowest in Scotland. It is clearly not good enough.

Paul Lewis: I agree, and my ambition is, through the work that we are doing with the account-managed base, to increase the proportion of international activity undertaken by the companies that we currently work with.

The Convener: We are nearly out of time, but we have one final and, I hope, brief supplementary from Chic Brodie.

Chic Brodie: I echo what has been said. I think that we lost a lot when we did away with the local economic forums. In the south of Scotland, it might be worth resurrecting them, in collaboration with the councils—that just shows that back benchers do not necessarily always go along with the Government's current view.

To reiterate what I said earlier, Scottish Enterprise is a business. It is a business with a net worth of £514 million and total assets, including cash and cash equivalent, valued at £109,757,000. I accept that there are restrictions on your capabilities with regard to spending all that.

Given that we are desperate—we are not risk averse; we want risk focus—why are such resources available? Given the strength of the balance sheet, why are we not doing more at a group level on focused investment? Why are we not getting the Government to agree not to hoard £514 million? I know that some of that figure includes immovable assets, but you see my point.

Iain Scott: I have told the committee before about how I want to realise our property and investment assets as much as I can over the next few years to help with our overall funding levels. The net amount of the £500 million that you mentioned is about £150 million in property assets and another £150 million in investment assets.

Chic Brodie: Are you talking about the £188 million for non-current property, plant and equipment assets?

Iain Scott: That is correct.

Chic Brodie: And the £165 million in financial assets.

Iain Scott: Yes—those are the figures that I am talking about.

You also mentioned a £110 million figure for cash. That is specifically for our investment funds. A requirement of the substantial amounts of European money that we got for our co-investment and loan funds was that we had to deposit cash in a bank account to show our commitment. As far as the figures that come in at the end of the year are

concerned, less than one month's payment to our suppliers is in that cash balance; the rest of it is made up of our specific funds, which have been working down over the past few years.

Chic Brodie: Looking at the table that shows our exposure—and I am not saying that we should not be exposed; we should take risks—I note that the figure for provisions is only £452,000 against a cash and cash equivalent figure of £110 million, which you have rightly defined as your investment funds. Is the figure for provisions enough?

Iain Scott: The provisions are not meant to be seen against the cash balance; given that that balance is money that is sitting in the Bank of Scotland as we speak, I do not think that we need to provide too much against it. The provisions are against other investments or debtors that we need to hold provisions against. The two are not the same thing.

Chic Brodie: Thank you.

The Convener: That concludes our questions. It falls to me to thank our three witnesses for coming along this afternoon and helping us with our budget scrutiny. We have covered a lot of ground in what has been an extremely useful session, and I am grateful to you for making the trip to Perth to join us.

I suspend the meeting briefly for a changeover of witnesses.

15:22

Meeting suspended.

15:27

On resuming—

The Convener: I welcome our second panel, who are from Highlands and Islands Enterprise: Alex Paterson is chief executive, and Forbes Duthie is director of finance and corporate services. Do you want to make introductory remarks, Mr Paterson?

Alex Paterson (Highlands and Islands Enterprise): Thank you, convener. We welcome the opportunity to come and speak to the committee. I am conscious of the committee's time and that people have to leave early, so I will not say an awful lot. Let me just say three things by way of introduction.

First, we are halfway through the current year. When we spoke to the committee back in May we talked about our new operating plan, "Building our future: Operating Plan 2014-2017", which we are implementing. The evidence of the first six months suggests that business confidence is returning.

We are seeing more demand for our products and services and our finance, which is encouraging. However, things have not been all plain sailing. You will have read in the press about one or two high-profile issues, in particular closures in the financial services business processing sector, which we are working to address.

Our results for the first half of the year are good. The demand for our services is pleasing, as is the fact that a number of big projects are moving forward well. Broadband is being rolled out across the Highlands and Islands, through the fibre project and community broadband Scotland, and some of our big infrastructure projects are moving beyond construction stage to implementation stage. For example, four projects have agreed to move forward on the Inverness campus, the European marine science park in Dunstaffnage has two tenants, and the Alexander Graham Bell centre for digital health in Moray is complete—and there is inward investment interest in it.

Since we last met, we have sold our subsidiary, Cairngorm Mountain, which is progressing well and will perform better in the hands of people whose business is tourism, albeit that we did not do a bad job when we had it. The first half year has gone well.

Secondly, in the past, you have asked us about our account management, whether we have evaluated it and what we make of it. I am pleased to say that we have just completed an evaluation of account management, which has been very positive. It is suggested that it has brought a net £350 million turnover to the companies that we are working with and has supported more than 4,500 jobs, and there has been good feedback on the products and services that we are providing to our clients.

Thirdly, looking forward to 2015-16, we have given you an outline budget in our submission. That budget is, of course, subject to the HIE board's approval. We are pleased about the consolidation of our income, which increased by 20 per cent last year. There is a small increase for next year, but we are particularly pleased about the consolidation at that level, which reflects a number of ambitious projects that we have across our sectors and in partnership with others.

I will stop there. Forbes Duthie and I are happy to take any questions that you may have.

15:30

The Convener: Thank you for that introduction, Mr Paterson.

I am conscious that, with the exception of Mr MacKenzie, there are no members here with a geographical interest in Highlands and Islands

Enterprise, but I am sure that many of the issues that affect the Highlands are very similar to the issues affecting other parts of the country. There will clearly be other areas of interest to the committee that we can pursue.

I will pick up on an issue that Joan McAlpine raised during our first evidence session today in the context of Dumfries and Galloway: that of infrastructure. When we took evidence this morning from businesses in this area, Perth and Kinross, we were discussing questions of exporting, access to markets and connectivity, which were very important to them, as were the additional costs of being far from market and far from points of export. If that is an issue here in Perth and Kinross, it is an even bigger issue in the Highlands and Islands. What are the major infrastructure issues that need to be addressed in order to improve the Highland economy?

Alex Paterson: There are a number of them. I have already touched on broadband, and I would put that at the top. Digital connectivity is hugely important, and it would be top of my list of priorities for the Highlands and Islands. It has to be a digital region; everything else flows from that. The fibre that we are currently installing is but a means to an end; it is how we use it that is really important. We are doing an awful lot on that already.

The second aspect of infrastructure is transportation. You might have noticed just last week that a number of new air routes have commenced out of Inverness. Air connectivity is vitally important. The route into London City is important on a daily basis. You might also have seen that there is a new route to Dublin and increased frequency on the routes to Manchester and Belfast over the winter months. That connectivity out of Inverness to three international hub airports is crucially important.

The third aspect is roads. The dualling of the A9 is still a top priority. There are a number of design contracts out there, and the first additional bit of dualling will, we hope, start next year. If anything could be done to bring forward the 2025 timescale, that would be vitally important.

Overall, therefore, the road infrastructure is critical; the air infrastructure and the expansion of air routes are hugely important; and digital connectivity means being able to internationalise from anywhere without always needing to travel. We are putting particular focus on the use of e-commerce and other routes to internationalise businesses. There will always be a geographical challenge, but there are a number of things in place and plans afoot that will help to address that to some extent.

The Convener: Thank you for that comprehensive response. I will pick up on one specific issue that you mentioned: the A9. You told me earlier that you came down here to Perth on the train this morning, so you missed travelling down the A9, with its average speed cameras now in operation.

A number of business groups, including the Federation of Small Businesses and the Scottish Council for Development and Industry, have expressed concern about the impact that average speed cameras might have on the Highland economy. If there are increased journey times, that will have a knock-on effect. Is that something that Highlands and Islands Enterprise has done any work on, as the economic agency for the Highlands?

Alex Paterson: The short answer is no, we have not. Working with Transport Scotland, we regard the speed camera issue as fundamentally a safety issue. Transport Scotland has indicated that it does not expect overall journey times to be adversely affected by the cameras but the answer to your question is no, we have not done any research on the economic impact.

Returning to my previous point, I think that the dualling of the A9 will make the most difference. If that can move forward, with design work undertaken and construction work put in place, it will make the real difference to the Highland economy.

The Convener: I do not know whether you are aware of the work that the SCDI has done on the issue. It quotes figures based on a report by the consultants AECOM on behalf of Transport Scotland, whose conclusion was that, after the cameras were introduced, there would be an average increase in journey times of between five and 10 minutes. That does not sound substantial, but the report estimated that it would impose on the Highland economy an annual cost of between £4.3 million and £8.7 million.

Alex Paterson: As I said, we have not done any work on that, but I hear what you say about the SCDI and I am happy to look into it.

My sense is that we need to see what the effect will be rather than try to predict it. It may be something that we can look at, but at the moment, as I said, it is very much a safety issue. I have not had anything mentioned to me about the adverse effect on journey times and knock-on impact on the economy. However, I thank you for bringing the matter to our attention and we will ensure that we look at it.

Chic Brodie: Can I be clear, convener? I thought that the speed limit for heavy goods vehicles, which are normally involved in the movement of goods, has actually gone up to

50mph. The changes may slow everybody else down, but that should help HGVs.

The Convener: The speed limit for HGVs has increased from 40mph to 50mph on the single carriageways, but you are assuming that they always drive at the speed limit, which in my experience of the A9 is a rather ambitious assumption.

Mr Paterson, you are prepared to look at the matter and keep an eye on it.

Alex Paterson: Yes. We will take it away and have a look at it.

The Convener: Thank you.

Dennis Robertson: I believe that the speed of cars and other vehicles will remain what it was, and if people are driving within the speed limits there should be no decrease whatsoever in journey times within the legal framework.

I have a question on support for SMEs in the Highlands and Islands. Digital connectivity is immensely important, and the roll-out is going ahead within a particular timescale. What growth rate do you envisage for SMEs, say in the next five years, once the digital infrastructure is up and running at its full capacity?

Alex Paterson: It will vary by business, as some will capitalise on it more than others.

Our focus is on making sure that every business knows about and is planning for the change in digital connectivity as part of their business planning. We are running a number of workshops—I think that we have run more than 50 so far—to increase awareness of the potential, and we are running health checks with businesses. Between 50 and 60 have already picked that up and are looking at it. We are also piloting a digital innovation grant scheme to help businesses.

I cannot give you an overall figure, but we are looking to ensure that individual businesses' productivity, export sales and so on are maximised. That is why we have the participation and health check services running alongside the introduction of the fibre.

Dennis Robertson: It appears that you are being extremely proactive in taking those things out to the SME market. Perhaps Scottish Enterprise could take a leaf out of your book in that respect, because I do not think that we got a substantive answer from it earlier about what it is doing to raise awareness. Perhaps you would like to share information about what you are doing with Scottish Enterprise.

What growth do you expect, perhaps in exports, in the various sectors in the Highlands and Islands?

Alex Paterson: My starting point on all things digital is that it would be difficult to find a business for which they are not relevant, even if that is just about improving websites and so on at a basic level.

If we look at the sectors, we see that there are a number of opportunities. I mentioned financial and business services, where we have had one or two challenges recently. Part of the challenge relates to the way in which that sector operates. Not everyone wants to phone a call centre and there are new channels such as online services, so I can see opportunities in financial services. Equally, one of the new models in that sector is home working. A business does not have to have everybody sitting in a centre. People can work from home, and that is enabled by digital connectivity.

We did an evaluation of our creative industries support last year and we have an ambitious plan to grow it. That is also enabled by greater connectivity. In fact, the route to market for music, publishing and everything else assumes a digital channel.

Let us take life sciences: with the population and chronic diseases challenges and the pressures on health budgets, the more that can be delivered through digital healthcare, the better. We have a small but fast-growing niche sub-sector in digital healthcare between Inverness and Moray, and connectivity is needed to develop that.

In tourism, people book their flights and holidays online and, when they get here, they expect to have good connectivity in order to find their way around.

In all sectors, whether that is sensor technology in the energy or aquaculture sectors—fish farms use sensor technology and discrete wi-fi networks—the technology is all pervasive, which is why I say that we must ensure as a priority that connectivity exists.

Dennis Robertson: Are you encouraging a collaborative approach among SMEs in various sectors, so that they come together in order to take their produce, for example, to the wider export market?

Alex Paterson: We are. I noted your comment about collaboration. A project has started in the west Highlands where about seven or so small food producers are working together. The purpose is exactly that: to create scale in order that they get into international markets, which would not be possible otherwise. We have a 12-month pilot and, working with SDI, we will provide the business manager, if you like, for a number of months to try to get traction in the overseas markets. I hope that, thereafter, something sustainable will be developed.

That aims to meet exactly that challenge of providing the means to market that those producers could not individually do even though the products are good enough. There is a collaborative effort, which we are piloting for food and drink, to see whether we can expedite that access.

Dennis Robertson: You are facilitating in the initial stages.

Alex Paterson: Yes.

Dennis Robertson: Okay. Thank you.

Chic Brodie: You mentioned transport, including air transport, which was one of the issues we covered at our meeting on 8 October when James Withers was with us. How much consolidation—as opposed to collaboration—goes on when looking at the opportunities in the Highlands and Islands to export products? Is it fairly disparate and that people export as best they can? Is there a plan to look at the consolidation of exports by air, particularly from product suppliers in the Highlands and Islands?

Alex Paterson: The example that I mentioned includes a bit of that consolidation. Is there something afoot on a grander scale? Probably not, although I have been speaking to a number of aquaculture companies recently and, individually, they are doing that. At the moment, however, a lot of the consolidation has to happen outwith the Highlands.

A number of companies are involved in an initiative that includes a consolidation effort—I think that that is in Bellshill or somewhere in that direction. Therefore, some consolidation activities are going on—from small food producers to individual companies consolidating through their networks, to the new initiative around Bellshill.

I agree that that aspect is one of the challenges that many companies face. The small-scale project involving seven to 10 food producers is an example of one way to address the situation.

Joan McAlpine: I have a supplementary on the digital infrastructure. You are obviously working hard to put the infrastructure into place and you have Government grants to close the gap that the market has left. That work is broadband based. When I had discussions with BT about mobile connectivity, it more or less said that there will be areas that will not get that connectivity, because it would not pay to provide it. Is that your understanding? What are your thoughts on that?

Alex Paterson: There are three elements to broadband.

First, what we are rolling out in the Highlands and Islands and what the rest of Scotland project is rolling out in the rest of Scotland is fibre. Fibre

should be taken as far as you can, because those points of presence and that backhaul are vital.

Secondly, the infrastructure fibre projects will not get everywhere, which is where the community broadband projects kicks in. That does not presume fibre; it can be wireless or any other technology.

The third element is mobile. That is a bit more difficult because we need to get 3G and 4G. You will perhaps have areas in your constituency just as we have in the Highlands where 3G would be good, let alone 4G or what comes after that.

Joan McAlpine: In some places, 2G would be good. *[Laughter.]*

15:45

Alex Paterson: The initiative that is trying to address that is the mobile infrastructure project, which is a Department for Culture, Media and Sport project that will apply to Scotland. It is in the process of developing a roll-out plan, and once that is available—it should be imminent—we will see which parts of Scotland will be covered by it. In effect, it will provide public sector intervention to install masts, and it can be done under a state aid rule as long as it is 2G. However, once a mast is installed to deliver 2G, it is simply a software upgrade to get to 3G and 4G.

We have to have mobile, and we are working closely with the Scottish Government digital team, but the plan or intervention to deliver mobile that is in play at the moment is MIP—the mobile infrastructure project.

Joan McAlpine: Do you know yet how much funding is liable to come via that project?

Alex Paterson: No, I do not, and the critical thing that precedes that will be the roll-out map, which DCMS has been consulting on and talking to planning authorities about recently to identify sites for the masts. I do not think that anybody yet knows the extent to which the rural parts of Scotland will be fully covered or not covered by MIP, but that is the first step in getting mobile coverage.

Joan McAlpine: Has your organisation had an opportunity to feed into the consultation?

Alex Paterson: The programme is being run by a company called Arqiva. I have had a meeting with it, and it has undertaken to provide me with a copy of the implementation plan and roll-out map once it becomes available. I emphasised to Arqiva the importance of alignment between its mobile project and the fibre project, because the two are not separate. Mobile looks for fibre as soon as it can, so if Arqiva is aware of all the points of presence that are being installed in Scotland

through the next generation projects, it should be building its mobile plan, at least to a degree, based on where they are.

Joan McAlpine: I do not want to be presumptuous, but I am reading into what you are saying a suggestion that there could perhaps have been more communication. You have told Arqiva what you think. Is that because it had not thought of it first? Has it consulted enough?

Alex Paterson: I do not know. I spoke to Arqiva because, to be honest, my priority is to get superfast wireless and mobile broadband across the Highlands and Islands and I will speak to whoever I need to speak to to get it. I just wanted to ensure that, in developing its plan, Arqiva was fully aware of the other investment that is going into the Highlands and Islands and the rest of Scotland so that it could build on that. I did not want a plan to come out from that organisation that was not fully aware of the infrastructure that has been put in place and on which it could build.

Joan McAlpine: So you made contact with it first.

Alex Paterson: Yes.

Joan McAlpine: Okay. Thank you.

Mike MacKenzie: I was interested in the discussion about the A9. I cannot help but reflect that constituents in most of the Highlands and Islands take five hours to do a journey that can be done on the A9, as it stands, in three hours. It is a constantly repeated refrain from people in other parts of the Highlands and Islands that all HIE's existing resources—or more than the lion's share of them—are focused on Inverness and not enough on the peripheral areas. I know that you were down at the population summit in Argyll last week, and people there are voting with their feet and saying, "We've had enough of this. We're out of here. We're moving to Inverness."

Picking up on some of the export figures from account managed businesses, I note that Shetland seems to do quite well, but I suspect that if we took farmed salmon out of the figures—I do not know whether they include oil and gas—they would pretty much echo the situation elsewhere in the Highlands and Islands.

There has been a conversation about collaboration, and I absolutely commend the pilot project for assembling the bulk so that we can get goods to market, wherever that market may be. I just wonder whether you are allocating enough resources to that and what opportunities the roll-out of broadband will give in that regard. Which companies can locate in places other than Inverness to revitalise some of the more peripheral parts of the rural economy?

Alex Paterson: It is in the DNA of our organisation that we cover the Highlands and Islands. The purpose in our operating plan is economic and community development across the whole of the Highlands and Islands. We are not Inverness-centric, although I would say that Inverness should not be disadvantaged if opportunities are located there. The reason why we moved out of our building earlier this year was because Cap Gemini wanted to create 500 new information technology jobs and the only place in the Highlands to do that was Inverness. I would rather that it did it in Inverness than go elsewhere.

On other opportunities, we recently approved significant funding for Shetland because we believe that Lerwick is the best place in the UK to do oil and gas decommissioning, so we are backing that intervention.

Mike MacKenzie: Tony Mackay did not agree with that, though, did he?

Alex Paterson: We believe that it is the best place in the UK to do that.

Mike MacKenzie: I think that you are right, actually—sorry.

Alex Paterson: Looking at Argyll, I said at the population summit last week that Argyll is the only local authority area in the Highlands and Islands that has lost population and we need to do something about that, but it is not because Argyll and the islands lack opportunities. I pointed out that the area is a global centre of excellence in marine science and we should do something to leverage that—I mentioned the idea of Oban as a university town. In addition, digital connectivity is a game changer for Argyll and we need to think through how we are going to utilise it.

There are also sectoral opportunities in some of the new, emerging areas such as marine science and marine leisure, but also in aquaculture, where new technology is coming through. Argyll has been identified by inward investors as the best place to do aquaculture. I could also take you round our patch and identify new inward investment in, for example, Orkney and Caithness. I do not think that we are Inverness-centric. There are some big things happening in Inverness, but I could take you round each of our area offices and identify interesting and ambitious things that are happening there.

On the export figures, it is understandable that there is variation across our different area offices, but the percentage of exporters in our account management portfolio is remarkably aligned with the business base in each area. For example, the Western Isles has 4 per cent of our exporting account managers and the business base there is 5 per cent of the Highlands and Islands. The figures for some areas, such as Caithness, are

above and the figures for one or two are below, but the alignment is generally not far out of kilter. Our focus is on working with any business that has the growth potential to move into export markets, and we will work with them wherever they are.

Mike MacKenzie: Okay. I turn to something that is more budget related. The previous time you spoke to the committee, we had quite a conversation about property disposals. Things have moved on, and you have provided some new figures in your submission. I really have to congratulate you on them. I think that you might be in the wrong business; you ought to be in property development, because the profitability seems to be very significant. Our previous conversations with your organisation and Scottish Enterprise were about it maybe not being the best time to dispose of property because we had not come out of the recession, but the new figures would suggest otherwise. Will you comment on that?

Forbes Duthie (Highlands and Islands Enterprise): Our property sales are a fundamental part of our additional income and we recycle the money back into growth. It is difficult to do property sales, but we specifically target existing tenants in buildings as part of helping them to grow and get ownership of the buildings. As we all know, the banks were not lending for a substantive period of time, but they have now started lending for owner occupation, so money is now coming into the market for businesses to buy property. We are not pushing at an open door, but that part of the portfolio is now more active and probably easier to develop.

Mike MacKenzie: That is even more curious, in a sense, because you are selling to occupiers who then become owner-occupiers. I absolutely commend that and it would be strange were the position otherwise. However, how do you arrive at the difference between the sale price and the valuation of your assets? By definition, they are not put on the open market.

Forbes Duthie: We have our properties independently valued every year as part of our annual accounts process. The values that you see quoted in the submission are probably the values from the previous year. You will remember that the property market is quite challenging, but the values are starting to come back. We might have valued something at £100,000 last March, but the market has moved on since then. We expect a blind bid for a property; we do not tell the bidder that the property is valued at £100,000 so we want £100,000—it is about what the property is worth to the bidder. If we can make a deal, we make a deal.

Mike MacKenzie: Forgive me, but if I was whoever bought unit 12 at Sandbank in Dunoon, paying £250,000 for that property, and I saw that

as of 31 March this year your valuation of it was £150,000, I would not be a happy bunny. I would be quite annoyed.

Alex Paterson: What Forbes Duthie has said is right. The asset is valued for the accounts. When we go out to the marketplace, we sell at market value, and that is—

Mike MacKenzie: I understand that. If you invite bids from all and sundry, you are testing the market and you get a fair market value, but if you sell to an occupier who pays £100,000 over your valuation, that occupier will not be happy.

Forbes Duthie: In that specific case, the—

Mike MacKenzie: I am not criticising. I am just making an observation. I am struggling to understand the situation.

Alex Paterson: Maybe we are in the wrong business.

Forbes Duthie: Maybe we are, yes.

It is not a deliberate policy to try to inflate prices when we sell to tenants. We encourage them to put in a bid for the property. In this situation, we are trying to get best value for the taxpayer as well, and the more we can get in, the more we can recycle back into economic development.

Mike MacKenzie: I absolutely agree with that principle, which brings me to my next question.

As good as you seem to be at property development, is it the best use of money to have it tied up in those assets—sometimes quite long term—or would it be better for the money to be out there being recycled, as it were, whether in property or not? Is there not an economic argument that the money is more active if it is out there working than if it is, in effect, buried in the ground under a building?

Forbes Duthie: I agree 100 per cent, and that is why we actively market our portfolio and move it on. We are not and do not want to be long-term landlords, but where there is market failure we have to go in and create the initial provision. Once we secure a tenant, we look for an opportunity to exit and move on to the next project. You are right—we do not want to be long-term landlords.

Mike MacKenzie: Given the interestingly high profits that you appear to have made—if I can put it in that way—should we not ask whether your methodology for asset valuation is fit for purpose in the first instance? Perhaps it is not that the new owner-occupier has paid more but that his valuation is a true reflection of market value whereas yours has been woefully underestimated.

Forbes Duthie: The properties are professionally valued at the end of the year by professional valuers, and not by—

Mike MacKenzie: Amateurs.

Forbes Duthie: —us at HIE, or indeed amateurs. The market value at that point is what the market value is. I suspect that there is an element of caution when the valuers put together the price. They do not want to overvalue, so there is perhaps a natural tendency to be cautious.

Mike MacKenzie: I want to ask a final question in this area, because it is important and it was controversial last time we talked about it. You point out in your submission that, unlike many other agencies, you are often a property developer, as you build on sites and so on. I assume that there is an element of cost recovery in your valuations in as much as you are not going to sell anything at less than the cost of acquiring the land and building the facility. I assume that the valuations at least provide for that.

Forbes Duthie: In Inverness that would probably be true, but in the Western Isles and some of the more remote locations the cost of building is often much higher than the finished value. The finished value relates to the rental that we can get for a property as a yield—that gives the value. In many instances there will be a substantive difference between the cost of building something and the actual value. The reason why we do such things is that there is market failure. If we did not do them, nobody would.

16:00

Mike MacKenzie: I absolutely accept the point, but it strikes me that we can all learn something from this area.

Alex Paterson: I agree, but just to be clear, I note that we will build in areas where the market will not go, so when we sell, we will not necessarily recover the cost of building. What we are buying is rental streams, but also economic development outputs. If we did not make those interventions, we would not get interventions in the more remote and fragile areas that we are trying to help. We will not always recover the cost of construction in the sale of the asset.

Mike MacKenzie: Okay. Thank you.

The Convener: I am conscious of the time, but Chic Brodie wants to come in.

Chic Brodie: I have a couple of brief questions. I do not want to revisit all the write-offs that we discussed previously, but you did a write-off two years ago for £2.5 million, for which you withheld the name of the company. Why was that done?

Forbes Duthie: There was a specific write-off for that company. You are probably asking why the company was anonymous because our policy is to be public about these things. The name of the

company was similar to that of a recurrent trading company that existed in the area. You should bear it in mind that the receivership occurred five years previously and the company enjoyed five years of growth as it came out of the recovery period in terms of write-offs. We believed that, if we published the name, it could affect the company's credit rating and its ability to raise funds.

We discussed the matter with Audit Scotland at the time of the annual accounts and it saw a similar risk. We therefore felt obliged to keep the name anonymous.

Chic Brodie: Well, it was your decision.

Last week, when we took evidence from VisitScotland, we talked about partnership. Given that tourism is probably the largest export industry, how effective is the strategic forum and what role do the enterprise agencies play in supporting VisitScotland's international marketing?

Alex Paterson: The strategic forum is very effective. Through it, we can all get round the table, discuss matters of common interest and agree how we take things forward. I can give a number of examples of where working with VisitScotland has been effective. The 2014 Commonwealth games and the Ryder cup are the obvious ones, and right now, on behalf of a number of partners including VisitScotland, we are consulting on how we can develop the marine leisure sector.

VisitScotland is partnered with us on a number of projects including the marketing of the new John o' Groats facility, and we both have some funding in the Inverness to Amsterdam air route. We are working together on a number of projects. Outdoor adventure is another one, and we are working with VisitScotland on how we use digital for the tourism industry, because we want to focus on how digital happens. The strategic forum is very effective as a forum for discussing opportunities and aligning strategy.

I am sorry, but I have forgotten the second part of your question, Chic.

Chic Brodie: How effective are the agencies in helping with VisitScotland's marketing?

Alex Paterson: We focus primarily on business development in the sector and on developing new opportunities such as the John o' Groats facility. If I took you to the Western Isles today, you would hear of new projects around Lewis castle, the Callanish visitor centre and so on. We tend to focus on product and business development and VisitScotland tends to focus on the marketing side of things, but we work together closely.

Chic Brodie: I mentioned earlier something that we—or certainly I—have been involved in, which relates to ports in Troon, Ayr and elsewhere: the

TEN-T network fund of £26.2 billion to help to lower sulphur emissions in marine transport and improve ports.

It is believed—I am sure this is not apocryphal—that in 2012 some 50 cruise ships came into ports in Scotland. In the same year, 500 went into Copenhagen. What are you doing with that type of activity? Are you looking to access those funds and generate inbound tourism from pleasure liners?

Alex Paterson: I will need to come back to you with the specifics, although I am aware of the scheme. From Lerwick on Shetland to Kirkwall, Invergordon, Scrabster and the west coast, the cruise ship industry is hugely important. It is a really important part of the tourism offer.

Chic Brodie: I have one last question about something else that I have been involved in. The made in Scotland brand is owned by one person. How important is the brand and what should we do to acquire it for public use?

Alex Paterson: I know the brand and I know the individual. He and I have had conversations about it.

Chic Brodie: So have I.

Alex Paterson: Do you remember Scotland the brand, many years ago? We have been here before. It would be good if there was something like that, but I do not think that not having it for public use is a show stopper.

Chic Brodie: It is not a question of whether it is a show stopper. I have had several meetings with potential and actual investors from China and the first thing they talk about is Scotland. I am not sure whether they know a lot about it, but it obviously has an impact. It may not be a show stopper, but would it augment the efforts that we are making in export activity?

Alex Paterson: I can see how it could, but there are many other ways in which we can get the Scottish name out there. I could take you to Orkney, where people really want to promote the made in Orkney brand. There is also the Outer Hebrides brand.

I do not think that it is critical that we have it. Individual sub-brands are equally important in communicating what we are about. I understand the situation with the brand, but I do not think that not having it is a show stopper. There are many other ways through which we can get the Scottish message out.

Chic Brodie: I have one very last question. I beg your pardon, convener; I am doing a Mike MacKenzie.

Joan McAlpine raised a very good point. Like her, I am a South Scotland MSP. You seem to be

able to reach disparate parts of the Highlands. This is a difficult question, but what would you do in the south of Scotland?

Alex Paterson: That is an unfair question, I think. *[Laughter.]*

The Convener: That probably is an unfair question, to be honest.

Alex Paterson: All that I would say is two things about what we do. One is that I am absolutely wedded to keeping our teams very close to the ground. In the Highlands and Islands, we have eight area offices that deliver our services to clients on the ground. Secondly, we are an economic and community development agency. I make no comment on any other part of Scotland, but doing what we do and delivering what we are asked to deliver for the Highlands and Islands requires both the economic and the community parts of the agenda.

Chic Brodie: That was a very good answer to my question.

The Convener: That concludes our session. I thank Mr Paterson and Mr Duthie for coming along and helping us with our draft budget scrutiny.

I thank everybody who has been here today, including those who came to our informal session earlier to assist us with our work. I thank the Salutation Hotel and its staff for being our hosts here in Perth and I thank the clerks and the Parliament's support team for making the relatively short journey to Perth to help us on this away day out of Edinburgh.

16:09

Meeting continued in private until 16:17.

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