



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Economy, Jobs and Fair Work Committee

**Tuesday 12 September 2017**

**Session 5**



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**Tuesday 12 September 2017**

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**ECONOMY, JOBS AND FAIR WORK COMMITTEE**  
**22<sup>nd</sup> Meeting 2017, Session 5**

**CONVENER**

\*Gordon Lindhurst (Lothian) (Con)

**DEPUTY CONVENER**

\*John Mason (Glasgow Shettleston) (SNP)

**COMMITTEE MEMBERS**

\*Jackie Baillie (Dumbarton) (Lab)  
\*Ash Denham (Edinburgh Eastern) (SNP)  
\*Jamie Halcro Johnston (Highlands and Islands) (Con)  
\*Richard Leonard (Central Scotland) (Lab)  
\*Dean Lockhart (Mid Scotland and Fife) (Con)  
Gordon MacDonald (Edinburgh Pentlands) (SNP)  
\*Gillian Martin (Aberdeenshire East) (SNP)  
\*Gil Paterson (Clydebank and Milngavie) (SNP)  
\*Andy Wightman (Lothian) (Green)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Sandra Dunbar (Highlands and Islands Enterprise)  
Linda Hanna (Scottish Enterprise)  
Iain Scott (Scottish Enterprise)  
Charlotte Wright (Highlands and Islands Enterprise)

**CLERK TO THE COMMITTEE**

Alison Walker

**LOCATION**

The Mary Fairfax Somerville Room (CR2)



**Scottish Parliament**  
**Economy, Jobs and Fair Work**  
**Committee**

*Tuesday 12 September 2017*

*[The Convener opened the meeting at 09:47]*

**Interests**

**The Convener (Gordon Lindhurst):** Good morning and welcome to the 22nd meeting in 2017 of the Economy, Jobs and Fair Work Committee. I remind everyone to turn their electrical devices either to silent or off. I have received apologies from committee member Gordon MacDonald.

We move to agenda item 1. I invite our new committee member, Jamie Halcro Johnston, to declare any interests that he might have.

**Jamie Halcro Johnston (Highlands and Islands) (Con):** Thank you very much, convener. I refer members to my stated and published declaration of interests. I should also note that I am a partner in the family farming business, J Halcro-Johnston & Sons, and that I am a shareholder in Campaignhouse, which is currently being wound up. That process will probably be completed by the end of this month.

**Decision on Taking Business in**  
**Private**

09:48

**The Convener:** Agenda item 2 is a decision on taking business in private. Is the committee content to take items 4 and 5 in private?

**Members** *indicated agreement.*

## Draft Budget Scrutiny 2018-19

09:48

**The Convener:** We move to agenda item 3. I welcome to the meeting our witnesses from Highlands and Islands Enterprise: Sandra Dunbar, the head of business improvement and internal audit, and Charlotte Wright, the chief executive.

For this evidence-taking session, I ask members to keep their questions short, sharp and to the point. Equally, our two witnesses need not feel that they must answer every question that is put to them; they should decide who is best placed to do so. Moreover, if there is anything that they feel would benefit from a follow-up written explanation, that option is open to them. Indeed, the committee would invite them to do so, if they felt it appropriate.

First of all, I will ask about the committee's scrutiny of performance and spending. Do you not think that, from our point of view, it would be more meaningful if you were able to publish annual reports earlier? What prevents agencies from publishing their annual reports in, say, late August or early September? Why can they not be published sooner in order to give the committee more opportunity to look at them?

**Charlotte Wright (Highlands and Islands Enterprise):** Thank you for that question. Getting that cycle right sounds like a sensible suggestion. In our process of audit and preparation, our accounts are generally completed in mid-September. We have had our audit opinion but we have not yet laid the accounts before Parliament, hence the slight delay.

We will take that point away, convener, and see whether we can do something to align our processes. We will work with Audit Scotland more closely and with the committee's timetable now that we understand how the timing will work for you.

I had an additional question, as we received some budget scrutiny from the Rural Economy and Connectivity Committee, but I think we have had it confirmed that our budget scrutiny will be done by the Economy, Jobs and Fair Work Committee. It is good to know which committee we will be reporting to. We will take that on board.

Sandra Dunbar is close to the process and might want to add something.

**Sandra Dunbar (Highlands and Islands Enterprise):** Along with Audit Scotland, we are looking to accelerate our accounts audit process as much as we can. We were challenged to get that completed before the end of August.

We try to issue some of our performance information as close to the year end as possible. Aligned with our financial information, our performance information gets issued more timeously. We are happy to speak with Audit Scotland and our sponsor team about how we might accelerate the process.

**The Convener:** You say "more timeously". When exactly is that?

**Sandra Dunbar:** Are you asking about the audit performance information?

**The Convener:** I was referring back to what you just said about information that is published sooner than the annual report.

**Charlotte Wright:** We reported on our performance outturns in May. Those are the actual achievements in terms of job numbers and turnover.

**The Convener:** Is that what Sandra Dunbar was referring to?

**Sandra Dunbar:** Yes. I was talking about our operating performance. That does not include our financial performance because that depends on Audit Scotland concluding its audit of our accounts.

**The Convener:** Perhaps you could follow up that answer in writing to the committee to confirm the approach that you will adopt on the issue.

Jamie Halcro Johnston has some questions.

**Jamie Halcro Johnston:** The enterprise and skills review aims to develop a set of shared outcomes and better collaboration on intelligence between agencies. What evidence is there that agencies are beginning to agree on shared outcome targets?

**Charlotte Wright:** There are a couple of things that I can address. First, we make sure that the outcomes that we report on map on to the national performance outcomes. It is important that we make that connection between what we do and the national performance outcomes.

A lot of the work that is still progressing with the new strategic board will be supported by the Scottish Government's proposed new analytical unit, which will be headed up by Gary Gillespie, the chief economist. It will look at the key indicators that the four agencies and business representatives who make up that strategic board need to track. It will focus on the matters at issue there, and productivity is the headline that we want to focus on.

From a Highlands and Islands perspective, I am keen to make sure that some of the activity outcomes and measures that are important to us, particularly our community work, are reflected in

that basket of measures so that the top-line strategic progress towards improving Scotland's productivity is the main focus at the strategic board level. We need to ensure that the things that are part of HIE's remit, particularly in supporting communities and social enterprise, play their part especially around the inclusive growth pillar of the economic strategy.

You asked about evidence of that alignment. We work closely with our colleagues at Scottish Enterprise on our reporting and, in areas such as internationalisation, Scottish Development International works with us, supporting and contributing to our outcomes on international trade, exporting and inward investment.

**Jamie Halcro Johnston:** You mentioned the new analytical unit. How do you see that working? I know that it was proposed by the enterprise and skills review.

**Charlotte Wright:** It is a really good opportunity to bring together the agencies' work and to put it in the context of those important indicators. Some of the work that has come out of that through the early stages of the shadow strategic board's operation shows that the move towards the join-up is happening. It offers us and our economics team an opportunity to participate in that. Gary Gillespie has indicated that the unit looks for such support from the relevant agencies so that we can work together on setting out the new indicators, how we track performance and how we report it through to the strategic board and wider constituencies of interest. Ultimately, what matters is how the communities and businesses that we serve judge us.

**Jamie Halcro Johnston:** When might you be able to start reporting back on that?

**Charlotte Wright:** Some of the indicators will be long-term measures. The question is perhaps more for the Scottish Government.

**Richard Leonard (Central Scotland) (Lab):** I will ask about some of the things that you have just been speaking about—in particular, the difference in presentation between your spending plans and Scottish Enterprise's spending plans. Will you elaborate on why you have priorities such as

"Supporting businesses and social enterprises; Strengthening communities ...; Developing growth sectors; and Creating ... a competitive ... region",

which are quite distinctive from the overall Government economic strategy and Scottish Enterprise's assembly of targets?

**Charlotte Wright:** Those four priorities are the ones that HIE has used for around six years. I hope that we make clear in our submission how they contribute to the four Is in the Government's

economic strategy. If not, we can provide further information on that. Indeed, a number of them contribute to more than one of those four Is.

As I said, the priority of strengthening communities is a foundation of what Highlands and Islands Enterprise does. It remains important to us that that comes across strongly in what we do and how we report. Given the outcomes of the enterprise and skills review, the comments that we received about Highlands and Islands Enterprise and the fact that the proposed new south of Scotland agency is interested in what we have done on strengthening communities, it is important that that priority stands as a key part of our activities. However, I understand your point about how that maps back to the Government's economic strategy and how we demonstrate that.

Let us take, for example, inclusive growth. A substantial amount of our activity on our strengthening communities measure—particularly on place, productivity and people—contributes to the inclusive growth measure. However, there is activity that we undertake in relation to creating a competitive region that we also see as part of our inclusive growth approach. I am thinking about our major investment in broadband, which enables people to access opportunities through broadband.

That mapping exists. If it has not come across clearly in our submission, we can certainly provide more information on it for you.

**Richard Leonard:** What assurances have you received from the cabinet secretary or the new chair of the strategic board that you will continue to work to those priorities rather than ones that the strategic board imposes centrally?

**Charlotte Wright:** The important context for us is the Government's economic strategy. It is my job and our organisation's role to ensure that we perform and deliver to that economic strategy. The four priorities are our interpretation of how we can best present that economic strategy within our region, taking account of the things that are important to us.

You asked about assurances. We have had confirmation of the continuing role and remit of Highlands and Islands Enterprise as an outcome of the review. I have not yet had an opportunity to speak to the newly appointed chair of the strategic board, but I hope to do so fairly soon.

**Richard Leonard:** Do you think that you have won that argument or is it a continuing battle that you may have to fight?

10:00

**Charlotte Wright:** We have had confirmation—both for us and for the communities and

stakeholders that supported us during the review process—that HIE remains with its board and its remit. I take that as absolute confirmation and affirmation of the role that we do and the way in which we do it.

**John Mason (Glasgow Shettleston) (SNP):** I am looking at a table that is set out in our papers and which is headed “Highlands and Islands Enterprise income sources 2016/17 and 2017/18”, which I think comes from the HIE operating plan. In one sense, the receipts are not huge figures, but the capital receipts for 2016-17 were £3.1 million, coming down to £2 million, and revenue receipts were £4.2 million, coming down to £3.2 million. I am not sure whether those figures are related to each other. Could you give us a little background as to why they are down?

**Charlotte Wright:** Are you comparing our operating plan budget figures for 2016-17 with our budget plan figures for 2017-18?

**John Mason:** Yes—that is right.

**Charlotte Wright:** I am sorry that our director of finance was not able to join us today, but he has had a cycling accident and is still in hospital with a punctured lung. Sandra Dunbar has joined us without loads of time to prepare, but I am sure that we can answer the majority of the committee’s financial questions.

**John Mason:** I am sure that the convener would be happy for you to write to the committee with more detail afterwards. Let us see how we get on.

**Sandra Dunbar:** That is fine. On that particular point, you are right to note the relationship between the capital receipts and the revenue receipts expectations. On capital receipts, the reduction between the operating plan budget for 2016-17 and the expectations for 2017-18 is a result of the fact that our capital receipts are largely linked to our property portfolio. That portfolio has reduced over time because, during the year, we have taken advantage of opportunities to dispose of attractive properties in order to increase our income. Therefore, our potential for further capital receipts has reduced and, as our portfolio has changed over time, the revenue from rental receipts has also reduced. Those factors relate purely to our property portfolio and our investment portfolio that we hold as regards property.

**John Mason:** Can you give us any indication of how much land or how many properties you still hold?

**Sandra Dunbar:** Yes. According to our current accounts as at the end of March 2017, we hold—I will find the figure for you—a net present value property portfolio of £41 million.

**John Mason:** Is it part of your approach that you will buy up land or properties that are not in great condition, invest in them a bit and then sell them on?

**Sandra Dunbar:** No. Our property portfolio is a significant tool for us regarding the economic development offering that we can provide to clients. Generally, we build property where we think that an economic opportunity might flow from it, so we provide start-up facilities or, for example, as at our Inverness campus, make life science provision that can be accessible to clients. It is a really attractive inward investment opportunity and is part of the package that we can offer as part of our inward investment attractiveness.

**John Mason:** Would you expect to sell those properties at a profit or, because you are attracting business, is that not your top priority?

**Sandra Dunbar:** Our top priority is to have our property portfolio available as a tool that we can offer either to incentivise inward investment or to enable indigenous businesses to grow. If we have an opportunity to dispose of property, we do so at market value.

**Charlotte Wright:** There is a mix. Sometimes, all that we need to do is acquire the land and service it, and the private sector will come in. That is our preferred option, but it really depends on the market conditions. The markets that operate across the Highlands and islands can be different. For example, there is considerable need for land and industrial premises in Elgin, in Moray, and our approach there has been to support a private investor directly, giving finance to that developer for them to take the development forward.

If we can stimulate the private sector, that is the first route. Where that cannot or will not happen, we will go as far as building the buildings and fitting them out.

**Gil Paterson (Clydebank and Milngavie) (SNP):** The biggest investment in the Highlands and Islands is the smelter plant in Fort William, but there is associated spending on affordable housing on a brownfield site to assist workers coming into the area. Is that part of the programme that you are talking about? Were you involved in that or in the discussions around it, and did you assist in any way?

**Charlotte Wright:** The proposal by Liberty House Group and the GFG Alliance, which now own the Lochaber smelter and two associated estates, which is a significant landholding in the West Highlands, is a major industrial opportunity—probably the biggest in the Highlands and Islands for generations—and you are right to say that the key constraining factor for such development opportunities is the ability to attract a talented workforce and provide affordable housing. There



has been a good, co-ordinated response to that development opportunity from colleagues in the Scottish Government, including those in housing, those in Transport Scotland—because there are major transport constraints on that part of the A82—and those in skills development. It is a significant programme of activity.

You have put your finger on the fact that affordable housing is already a problem in that area and is of concern to the local community, which is encouraged by the smelter now having a great future—it was previously under threat—but which is concerned about how it can respond to the opportunity. The pressure on housing and transport is particularly acute.

**Dean Lockhart (Mid Scotland and Fife) (Con):**

My question is on the budget process. Given that you get less than a year's notice of the Government's annual allocation, how are you able to plan for the long term? How can you plan three years in advance when you do not know what budget level is coming down the pipeline, because it changes on an annual basis? For example, I see that spending on growth sectors was down 13 per cent last year. Does the budget process have an adverse impact on your ability to plan for the long term?

**Charlotte Wright:** There are a couple of mechanisms that we use in the planning process at the moment. To a degree, having been accustomed to that pattern of how we know about our budgets, we have developed tools for working around it. One thing we do is to prioritise the work with businesses and communities. We would then develop a number of projects, as we would describe them, at our own hand, such as some of the property stuff that we have just talked about. If need be, we can either accelerate or delay that, so that can act as a brake on how we use our budget, depending on what is happening with business demand in the community.

In addition, we have discussed with Audit Scotland the possibility of having a more formal scenario planning response in the accounts process this year, and it is keen to work with us on that.

**Dean Lockhart:** I guess that any reduction in budget would mean that you have to prioritise certain projects that have been pre-baked into the pipeline.

**Charlotte Wright:** Yes.

**Dean Lockhart:** The downside would be that some projects have to be de-prioritised—in other words, they would not go ahead.

**Charlotte Wright:** Prioritisation is an important part of the process. We have tools and techniques that we use to prioritise. We use our investment

strategy to target other potential sources of income that can support the delivery of a project, rather than using our grant in aid. We also ensure that we use our resources in the most effective way, whether through a grant or by using that finance as a loan or in other ways, to lever the most out of it. There are a number of ways in which we can prioritise the use of our money, as well as prioritising the most important projects.

We have a saying in Highlands and Islands Enterprise that no good project will go unfunded. If something lands in my lap tomorrow that I was not expecting but which is a fantastic project, we will review our prioritisation to make that happen. Sandra Dunbar's team is close to that process, so she might want to add something.

**Sandra Dunbar:** As Charlotte Wright has said, we use a number of tools and techniques including, for example, the consideration of opportunity cost and competing opportunities. The ability to flex between our own-hand activity and our more direct assistance to businesses, communities and social enterprise is another quite powerful tool.

I would also highlight our ability to be focused in accessing European funding in particular, and the opportunities afforded by that to drive some of our key priorities. We are targeted in our priorities and in finding other sources of income to leverage against our grant-in-aid allocation.

**Dean Lockhart:** Finally, can you update me on HIE's involvement in financing companies under the Scottish growth scheme? Have you had discussions with business in the area that you cover with regard to receiving funding under the scheme?

**Charlotte Wright:** We have not had any to date. Is that right, Sandra?

**Sandra Dunbar:** We have not had any, as far as I am aware.

**Dean Lockhart:** Do you mean that you have received no applications?

**Charlotte Wright:** We have dealt with business demand through our own grant in aid and budgets. We have not accessed the growth fund.

**Dean Lockhart:** As far as you are aware, though, is funding available to HIE under the growth scheme?

**Charlotte Wright:** We will probably need to get some more information on that for you.

**Dean Lockhart:** Thank you.

**Andy Wightman (Lothian) (Green):** In a news release in May, you indicated that you had met or exceeded all of your targets in 2016-17. However, I note that in your opening plan for 2017-18 your

targets remain much the same. Are you being ambitious enough in the support that you provide and the outcomes that you are seeking to achieve?

**Charlotte Wright:** I will answer that question with a yes. We are an ambitious organisation, and when setting those targets, we consider carefully whether they are stretching enough. Indeed, we have increased the job numbers in our fragile areas. As a result, the headline job target number might remain the same, but we are keen to increase the proportion of the jobs in our fragile areas. That is an important focus for us.

This year, we have introduced an additional measure to track the average wage of the jobs that we support. That is important for a couple of reasons, including the obvious one of ensuring that we have a handle on the wages for those jobs. I suppose that our tracking that figure is also a proxy for productivity, given that pushing up wages also encourages productivity overall.

**Andy Wightman:** How do you intend to meet that new target for average salary?

**Charlotte Wright:** It presents challenges in some sectors. As you will be aware, some of the higher-paying sectors such as life sciences, technology or advanced engineering will influence the average number. The most significant sectors in the Highlands and Islands are tourism and food and drink, but traditionally they lie at the lower end of wage levels, and we are working particularly with the food and drink industry on technology, product development and other activity that will increase productivity and enable businesses to push up wage rates.

**Andy Wightman:** As I understand it, the average salary for jobs supported is calculated by totalling the earnings from jobs created or retained by HIE support and dividing that by the total number of full-time equivalents supported.

**Charlotte Wright:** That is right.

**Andy Wightman:** So we are not talking about the average salary across the area. I presume that the figure can be easily manipulated by choosing who is supported.

**Charlotte Wright:** The focus in our measures is on ensuring that our target measures and performance are directly attributable to the support that we provide. We track average wages across the Highlands and Islands, too; indeed, in reporting to our board, we have a tracking measure of average wages at a sub-regional level in the Highlands and Islands.

It is important to us that we see what is happening in the economy as a whole but, in targeting our resource, our focus is on ensuring that we can define how the outcome—which we

hope will be higher wages—can be attributed to our support. However, we also track the economic indicators across the region, including what is happening with the average wage across the piece, which varies. We are very conscious that there are places where the average wage is much below the national average wage.

10:15

**Andy Wightman:** Given that your target for the number of jobs supported is 1,688, and that the number of jobs in the Highlands and Islands—although I do not know what it is—is vastly higher than that, would it not be more appropriate to target your support to make sure that average wages right across the region increase?

**Charlotte Wright:** I suppose that it is about making the best use of our resources. Using our leverage, we can make sure that where we support an element of business, it drags wage levels up.

The number that you just quoted was actually our outturn for jobs support in 2016-17, rather than the target.

**Andy Wightman:** I have a broader point, which is a general point for enterprise agencies. Highlands and Islands Enterprise and its predecessor, the Highlands and Islands Development Board, have been in existence for more than 50 years and have achieved quite a bit, but how confident are you that the interventions you make are actually delivering the kinds of outcomes that you seek? In other words, if HIE did not exist, what is the counterfactual in relation to economic performance across the HIE region?

**Charlotte Wright:** That is a big question. The good thing about HIE and the HIDB having been around for a long time is that we have been able to track some longer-term indicators. Indeed, our view is that the gains of some of those bold strategic decisions are long term. The headline that we always mention when asked what difference we have made in that time is that our biggest impact has been on the population of the Highlands and Islands. As you will know, in the 1960s, people were leaving the Highlands and Islands in absolute droves, and population was a real issue. I am not sure that HIE can claim credit for all the success in that area, but we think that we have had a significant role in it and we have evaluation and figures to support that. Population in the Highlands and Islands is rising, although not everywhere, and some areas continue to give us concern. It is now around 470,000.

More importantly—although again, these are soft evaluation figures—we undertake a survey of the attitudes of young people, and the most recent one indicated a significant difference in their

attitudes to the region. Whereas in previous surveys young people had seen a lack of opportunity and demonstrated a lack of commitment to the region, there has been a strong turnaround. People now feel both privileged and committed to the region—they see opportunities in it and they are keener to stay. For us, those are really long-term indicators of a region that has changed.

Among other big factors, clearly the growth of Inverness as a city has made a big difference to the region. Its growth has been considerable, even over the past two decades, if not going back as far as 50 years.

We have some long-term indicators and evaluation that demonstrate the progress of the region and HIE's role in it, as well as some shorter-term studies. If there is anything that it would be helpful to give you more detail on, we would be happy to share it with you.

**Andy Wightman:** Thank you.

My final question is specifically related to developments in Cairngorm. There is widespread concern in local businesses and communities about management of the Cairngorm estate and the lease to Natural Retreats, which has been brought into focus recently by the demolition of ski uplift facilities. Local businesses and communities have formed a campaign to take over the management of that estate. You will be aware of the controversy. Would you consider reviewing the lease of that area in the future, given the amount of concern about what is going on?

**Charlotte Wright:** I take very seriously the issues that have been raised about Cairngorm by a variety of groups in the community and wider stakeholders. As you will know, it is a really special place, and as guardians of that estate, we have an interesting set of responsibilities around the environment and the particular set of designations that Cairngorm has and obligations with regard to running the ski area and supporting that through a lease with the operator Natural Retreats. For some stakeholders, some of those things are in conflict, and a number of people write regularly to me with concerns about the environment while other correspondents regularly write to me about skiing. We need to ensure that we strike the right balance between those things.

On the specific issue of the taking down of equipment in the Ciste area, that equipment had not been used for more than 10 years and was beyond a state where it could be reused. In fact, it was actually better for the environment to take it away. As for the future of skiing on Cairngorm, we are undertaking an uplift review to find the best and optimum ski uplift that we can have on the mountain. That does not discount the potential for

further skiing in the Ciste area, which can also be accessed by surface lifts.

I understand that parts of the community are really unhappy about what they are seeing, and we need to be able to manage and balance that. Ultimately, it is really important that the operator, Natural Retreats, which is only a few years into a 25-year lease, has a business that is viable all year round so that skiing is maintained. Skiing is very important to the winter trade in the Strathspey area, and businesses are rightly concerned that the ski area continues to be successful and to draw people in the winter.

All ski areas are facing challenges with regard to snow, and we are looking at other options for all the ski centres, including the potential for snow-making facilities at Cairngorm. The other centres are interested in that proposal, too.

Through our community assets team, we are supporting the community group that has expressed an interest in taking over the Ciste area of the mountain. We are supporting it as we would any other community group, by enabling it to understand the opportunities and challenges in taking that forward. At the same time, we are maintaining our role as landlord to Natural Retreats, the ski operator, and that relationship is also important to us. As you will understand, it is quite a job to manage and balance all those things.

**Andy Wightman:** Thank you.

**The Convener:** What exactly has Natural Retreats done to redevelop infrastructure at Cairngorm?

**Charlotte Wright:** Perhaps I can give a bit of background for committee members who might not be aware of the situation. As the owners of Cairngorm mountain, HIE undertook a full procurement process to find a new operator for the ski facilities. We actually ran the ski company for a few years after the failure of the previous operator but, as we are clearly not experts in running a ski resort, we wanted to get in an operator that could do so.

What came out of the procurement process was a requirement for some investment to be made in the facilities on Cairngorm, and we offered a £4 million loan for that. Natural Retreats has some plans, which I think have been aired quite publicly, to upgrade the restaurant facilities and put in an artificial ski slope. Those proposals, which are going through the planning process, will be the main investments in the ski area.

**Gil Paterson:** I know that you touched on this in your answer to Dean Lockhart, but what are the reasons for the 13 per cent reduction in the

developing growth sectors budget over the past year and what impact has that had?

**Charlotte Wright:** The reduction was in relation to a development at the European Marine Energy Centre in Orkney, where the centre was able to spend less in that year than we had budgeted for. We used the money from growth sectors and put it into other parts of the business, so that we spent the grant-in-aid budget overall.

**Gil Paterson:** So there was a surplus. Have I got that right?

**Charlotte Wright:** No. The money was not required where it had originally been budgeted for, which was a development at the European Marine Energy Centre in Orkney, so we used it elsewhere in our grant-in-aid spend.

**Gil Paterson:** Sorry—I do not understand. What was the reason for not using it? Did something happen?

**Charlotte Wright:** Occasionally, with a large project, the spend can be slower than anticipated by the applicant. That was the case here.

**John Mason:** I want to build on Andy Wightman's question about your new measure to track average salaries. I suppose that £25,000 is a kind of round figure. Will you explain why that figure was chosen rather than £20,000, £30,000, £26,000, £27,000 or any other figure? Presumably you could have chosen other measures. Why did you choose that one?

**Charlotte Wright:** The choice of a tracking measure for average wage in our jobs supported was to give us a form of proxy for productivity. Where we can see wage rises across activity, that indicates a move towards productivity overall.

That number was chosen to give us a target for the region. A salary of £25,000 is above the average wage in the region at the moment, so getting to that target is a significant challenge, particularly given that wage rates are lower in sectors such as food and drink and tourism, which are significant in the Highlands and Islands. In tracking the performance so far this year, some of the jobs supported have come in at significantly higher than that. There is still a concern for us that some are coming in lower than that, and we are monitoring that. The average is the target, but we are also making sure that we understand what the range is across jobs supported.

**John Mason:** It has been suggested that when foreign companies invest, they pay higher wages but also take more of the profit out of Scotland. Is that a factor that you are looking at?

**Charlotte Wright:** The biggest factor is probably the sector. I mentioned earlier that life sciences and technology-led sectors tend to have

higher wage rates. An example in the Highlands and Islands is LifeScan Scotland, which is a Johnson & Johnson company that we supported last year and whose wage rates are high. Yes, it is an American company, but it has made quite a significant contribution through innovation, through the jobs that it has created and through the support that it has given to the community through its corporate social responsibility policy. Further, spin-off companies have come out of Johnson & Johnson when people who have left there have started up other companies. I think that there is evidence that strongly supports the fact that, overall, international companies that innovate and export make a very strong economic and social impact.

**John Mason:** Would the range of wages be important? I was trying to work out some figures quickly. If one company paid one person £100,000 and 15 people £20,000, and another company paid all 16 people £25,000, the average would be the same. Is it a factor for you that there is a bigger spread?

**Charlotte Wright:** You are right, and that is something that we will look at. When we are supporting jobs, we will get a breakdown of the full range of jobs that we are supporting and the wage levels, because that helps us to work out the average figure. Ideally, we would want all wages to hit the threshold that we have set. To be honest, we get both the scenarios that you have described. There might be management-level jobs that attract those more significant figures and other jobs that are much more at the lower end. Sometimes there is a big range of wages and sometimes they are closer together. It really depends on the scale of the business and the sector that those jobs are in. There are a number of examples at both ends of the scale that you have described.

**John Mason:** How about the split between men and women? We have looked at the gender pay gap previously, but is that an issue?

10:30

**Charlotte Wright:** Yes. We know that the committee has expressed interest in that in the past and we have submitted information to the committee about how we are tracking it. We are also tracking the gender bias in relation to ownership and senior management roles across businesses and social enterprises, and we find that there is a difference between them.

**John Mason:** When the Scottish Government responded to our gender pay gap report, it talked about your business values ladder, if I have the title correct. It said that it:

“enables HIE to measure the extent to which both account managed and non-account managed businesses and social enterprises demonstrate innovative workplace practices”

that reflect the Scottish business pledge elements. Can you tell us a little about the business values ladder?

**Charlotte Wright:** We have taken that approach in a few areas. We now have five ladders of progression, and the business values ladder is one of the ones that we have introduced recently. It is really helpful. The ladder will have between five and seven rungs on it, which will enable us to plot where our account-managed or supported companies are in terms of that ladder of progression, and determine whether they are at the early stages in relation to the kind of indicators that would support business values or they are an absolute exemplar. That enables us to target our assistance to ensure that there is movement up the ladder and that the companies progress in that way. We also use ladders in tracking innovation, internationalisation and community capacity, because we found them to add a qualitative aspect to our measurement framework.

**Richard Leonard:** Do you look at the wage ratio inside the companies that you are working with and which are receiving investment and other forms of support? That would reflect John Mason’s point about how there might be somebody at the very top who earns 15 times more than the person at the lowest pay grade.

I also have a quick supplementary question. You mentioned ownership as something that you look at. Do you discern any difference in wage rates, equality of wage rates and wage ratios in companies that are in the social economy, such as employee-owned companies, which I know that you have been doing work on recently?

**Charlotte Wright:** We track the ratio of high to low earners. What we are capturing is the wage rates of the jobs that we support. That can vary. For example, an extension to a manufacturing and production facility might involve a mix of jobs, with some being hands-on manufacturing and some involving an element of management.

That might not give the full answer to your question. What I am saying is that we might not have the full picture for an organisation, but we look at ratios. Essentially, I would give the same answer that I gave to the earlier question: whether the ratio is significant will vary from business to business. In a high-volume, low-value manufacturing process, such as salmon processing, for example, there will probably be a big gulf between the lower wage rates on the processing floor and the managerial jobs at the other end of the wage spectrum.

Where we can work with businesses to support movement and progression, that is what we will do. We track that and we try to use our powers and our resourcing to leverage as much progress as we can. Since we are introducing this new measure, perhaps it would be good to talk to the committee at the end of the year when we can see what the outcome of that has been and how successful the tracking measure has been. It will be useful to come back and discuss that in more detail.

The second part of your question was whether the wage rates are different between social enterprise and business.

**Richard Leonard:** And in employee-owned businesses especially.

**Charlotte Wright:** Certainly, there tends to be a difference between social enterprise and business. Usually, in social enterprises, wage rates are lower and there tends to be less of the scale that we spoke about earlier, as regards high wages at the top and lower wages at the bottom. However, I am making some generalisations here.

The situation in employee-owned companies can vary. There are some stand-out employee-owned companies in the Highlands and Islands. For example, there are some fantastic wage rates in Aquascot.

**Jamie Halcro Johnston:** My question is on inclusive growth generally. Do you feel that you can deliver that consistently across all the parts of the Highlands and Islands? Have you identified areas in which it would be harder to deliver, and what the barriers to it might be?

**Charlotte Wright:** Your question goes to the heart of what we do in HIE. That is a really important factor to us. We look at the economy of the Highlands and islands as a set of smaller economies that operate quite differently from one another. You will know from your own experience in Orkney that it is quite different to mainland Scotland.

We need to make sure that we consider the opportunities and the challenges. Our approach is about place-based activities, so that we can capitalise on natural assets where they exist. The Orkney examples will be well known to you, such as the work around the European Marine Energy Centre. What has happened on energy as a whole in Orkney is really significant and has pushed up wage rates and brought international companies to the islands. There are other aspects of indigenous growth that are very successful, such as the jewellery sector, which has established a great reputation for Orkney, and food and drink, where we see products such as crab being successful.

There are still some difficulties and challenges in making sure that we see inclusive growth happening right across the Western Isles. In a microcosm, there is the challenge of a lot of jobs activity and people being pulled up to Stornoway. We have an office in Benbecula and we make sure that we give priority to support to Barra and the Uists, where there is a more challenging opportunity. Development is often led by the community, such as at Lochboisdale, where there has been £10 million of regeneration work around the development of the port of entry, which has made a significant difference to the area.

**Jamie Halcro Johnston:** The University of the Highlands and Islands is another pan-regional organisation. How closely do you work with it in bringing younger people into the Highlands and Islands to study and retaining them into their working lives and also on providing support to develop entrepreneurship and businesses?

**Charlotte Wright:** UHI is a critically important partner for us. We see our progress as being very much interlinked with its own. Before UHI was a university, our number 1 priority for the Highlands and Islands was to ensure that that institution received university status. It has made a significant difference, and its distributed model of using the colleges across the Highlands and Islands is absolutely right. There are still some things that are developing for UHI. We work with it in the areas of entrepreneurship, and we bring in world leaders such as the Massachusetts Institute of Technology and Harvard to stimulate what we are doing on that.

We are working with other universities. For example, we are delighted that we have a campus of Glasgow School of Art near Forres. UHI is the key regional university, but where we can bring in others who can add value, partner with UHI or bring something in particular, we do so. To go back to Orkney, Heriot-Watt University has been in Stromness for more than 25 years, obviously for a particular reason, and has been very successful. We are working with Orkney Islands Council in a joint venture to develop a new campus in Stromness that will maximise the presence of Heriot-Watt University there. Robert Gordon University is also interested in becoming part of that. UHI is critically important. However, it is not the only route.

**Jamie Halcro Johnston:** Where do you see the skills gaps for the Highlands and Islands at the moment, and how can they be addressed?

**Charlotte Wright:** Not only are there skills gaps; there is also a people gap. When we meet businesses as part of our board activities—we have business breakfasts and engagements with them—one of the top issues is always that of attracting and retaining people with the right skills.

To categorise the gaps broadly, there is a challenge around digital skills, but that is a widespread issue that affects not only the Highlands and Islands but other areas, too. There is also a challenge in pathways such as engineering, which feed into many of our key sectors.

**Dean Lockhart:** I have a final question. How do you set your performance targets? I believe that you have met your targets for the current year. The ministerial letter of guidance that sets out the strategic priorities is more a summary of Government policy than something that sets out targets, so can you talk us through how you set your targets, working with the Government?

**Charlotte Wright:** Looking at what we have done in the previous year is an important part of that. Because activity does not happen only during the year and is often planned for a number of years, we examine what we call our pipeline, so that we can get a realistic feel for what we are likely to achieve on key indicators such as jobs, turnover and the communities that we work with, then we stretch that. As part of our process, I take a draft plan to the HIE board and it challenges us on that and also encourages us to be ambitious.

The process involves a consideration of what we have done in the past, what we expect to happen and what the economic challenges are, and we then work with our HIE board and sponsor team colleagues to set a target at the right place so that it is challenging and ambitious enough for us.

**Dean Lockhart:** Does the Government challenge the targets as part of that process?

**Charlotte Wright:** It has done in the past.

**Dean Lockhart:** But not every year.

**Charlotte Wright:** I do not recall there being a challenge over what we submitted this year.

**Dean Lockhart:** Thank you.

**The Convener:** I thank our witnesses for coming in. I suspend the meeting to allow our next panel of witnesses to be seated.

10:42

*Meeting suspended.*

10:50

*On resuming—*

**The Convener:** We welcome two witnesses from Scottish Enterprise: Iain Scott, chief financial officer, and Linda Hanna, managing director for strategy and sectors.

I will start by asking a question about the annual reports that Scottish Enterprise issues. Both witnesses were in the room during the earlier part of today's meeting when I asked this question of our previous witnesses. Would it not be possible for you to publish your annual reports earlier for the purposes of the committee, so that we have more opportunity to look at them in the framework of the budgets?

**Iain Scott (Scottish Enterprise):** Yes, convener, it certainly would be possible to do that. We aim every year to have our accounts signed off by our board toward the end of June or early July, without going into the holiday period. They should be available as soon as recess is over to lay in Parliament and be available to the committee thereafter. Knowing your requirement to have them earlier, we would be happy to do that.

The annual accounts are, obviously, quite a technical document and are sometimes not the best way to describe what we do, but I would be happy to publish them sooner and to annotate them in any way that the committee wants. I hope that the information that we gave to the Scottish Parliament information centre and its analysis of that will be useful for today's meeting.

**The Convener:** Perhaps some infographics would assist in making them attractive. Jackie Baillie has a follow-up question.

**Jackie Baillie (Dumbarton) (Lab):** It is a very small question. I checked back and, in 2015 and 2016, you published the accounts in June and July. Why did you not do that this year?

**Iain Scott:** I might have to check where you got those dates from. It is normally the beginning of September. The date that I have for our 2015-16 accounts being laid is 7 October, and the year before that it was 8 September. I know that it is always early September.

**Jackie Baillie:** Sure, but they are available earlier, because the date under Lena Wilson's signature is earlier. You are making the point that they are signed off at the start of the summer and should be able to be laid at the start of the new parliamentary term. Why was that not done this year?

**Iain Scott:** It was just because historically we have gone for early September, which we thought fit well with the normal process. We do not normally talk about that at our budget scrutiny. I am happy to do that in the future. As you quite rightly point out, the accounts are signed generally at the end of June or the beginning of July.

**Jackie Baillie:** Sorry, but this is early September, so I am curious as to why the accounts for last year are not here now.

**Iain Scott:** We work with our sponsor team on the date of laying the accounts in Parliament. We were not aware that there was a requirement to lay them in Parliament before this committee met. I confirm that I am happy to do that in the future. The timing has not worked for it this year.

**The Convener:** We will move on to the enterprise and skills review.

**Jamie Halcro Johnston:** The enterprise and skills review aims to develop a set of shared outcomes and better collaboration on intelligence between agencies. What evidence is there that agencies are beginning to agree on a shared set of outcome targets?

**Linda Hanna (Scottish Enterprise):** Over the summer, the partners have been particularly working in the shadow board, which Charlotte Wright talked about earlier. That is the implementation board that has been working with not just the agencies but our partners in the chambers of commerce, the Federation of Small Businesses and others to provide the foundations for the new strategic board. Part of that work has been looking at a new measurement framework laid by the Scottish Government. Another part of it has been looking at a plan for the new strategic board and how it will help drive collaboration and further alignment across the agencies.

In answer to your question about what evidence we are seeing, there is clearly a coming together on some key collaborative actions that will be recommended to the strategic board. The agencies will begin to publish them and show the things that we are working on and how they will drive improvements in the economy, particularly around the drivers of productivity.

We have already been working together. The enterprise and skills review talked quite a lot about things that we do together, but this is about really big actions that we think we could be doing even more of. For example, we are already doing work on a manufacturing action plan, which is in the programme for government and has been for a number of years. We have done further work with the Scottish Further and Higher Education Funding Council and Skills Development Scotland on the skills alignment process; there is talk about how they would do that. There are actions relating to what we are doing on innovation. We have worked together on either things that have come out of the phase 2 review report or things that we know are needed in terms of looking at the economy.

Over the summer, we have been very much working together, having conversations about what the economy needs and where we can take things forward and then setting that out.

**Jamie Halcro Johnston:** How do you see the analytical unit that was proposed by the enterprise and skills review working?

**Linda Hanna:** Again as Charlotte Wright talked about, we are all very pleased at having an analytical unit to add to the resource that we already have. It will enable us to draw together the evidence from a number of sources, including the Scottish Government and the agencies. We all share that evidence already, but the unit will help us to bring it together, analyse it and provide input to the strategic board. It will also help us to think about where the economy is now and where the performance gaps that we know we have are, and enable us to do a bit of a deep dive to determine what those economy-level performance gaps are and what areas would make a big difference. That should help drive strategic board conversations about where future choices could be made on what is making a difference and where best practice could be.

The unit also gives an opportunity for that conversation to go wider, by working with others who are experts in the area, such as academics, the Fraser of Allander institute, other universities and other think tanks that could be looking at the issue. There is an opportunity to do some things differently.

The unit is still getting set up. Gary Gillespie of the Scottish Government is leading on that and we are looking to support it. Until the unit is up and running, Scottish Enterprise will provide some resource to support analytical work, so that there is no hiatus in analysis of the economy, what makes a difference and where we need to focus.

Once the unit is up and running, we will work very closely with it in looking not just at the macroeconomic data but at what it would mean we would need to do in a practical sense and how that links to industry and partners. We will link that directly and pragmatically to what needs to happen on the ground.

**The Convener:** I have a question about grant in aid. You can supplement your grant-in-aid budget by selling investments, charging rents, disposing of assets and so forth. In 2016-17, did you meet your target for supplementing your grant-in-aid money? In other words, what did you do about that aspect of what I suppose we could call your portfolio?

**Iain Scott:** We were more successful than we expected to be with the investment disposals. The market picked up early on that year. Against the £31 million that we were expecting in 2016-17, the year-end outturn was nearly £39 million.

We were not quite so successful on our ambitious target for property sales. At the £40 million level, I think that that was the highest target

that we had ever set the team, but at the end of the year, our income on property sales was £26.3 million. Therefore overall our supplementary income came down last year, so we balanced the outturn at the reduced level.

**The Convener:** Is there a reason why the property sales figure was that much lower? It is quite a difference.

**Iain Scott:** To be honest, the £40 million was quite unusual. Normally, the amount has been around £20 million, but there were two large properties that increased it last year. As we have explained in the notes, we did not get quite so much in for those as we had expected, but we got the market rate that was available, so that was good for that year. We are setting ourselves ambitious targets for next year as well. The target for 2017-18 is about £23 million on property sales, and we believe that we will be able to achieve that. That is probably the normal, more representative level.

11:00

**Gil Paterson:** I understood that you were setting a lower target for 2017-18, maybe on the back of your disappointment with property sales. Is that the case?

**Iain Scott:** I would call it a more realistic target. We do not have those two large-value properties. Even to reach the £23 million target, there are a couple of properties—one at about £6 million and one at about £9 million—whose value we will have achieve, but we believe that we will be able to do that. We are currently marketing around £35 million or £36 million-worth of properties to try to achieve £23 million in actual sales, and we think that that is a more realistic and reasonable target for this year.

**Gil Paterson:** Is that based on past experience?

**Iain Scott:** Yes, it is based on experience of the properties that we have and on expectations of the marketplace at any point in time. The £23 million target is ambitious, and the team are working hard to meet it this year.

**Gil Paterson:** What is the value of the existing property portfolio and how much property has been sold off in the past decade or so?

**Iain Scott:** I can certainly give you the value. Our year-end accounts will show our property portfolio to be worth something in the region of £140 million. Over and above that, we have the Glasgow science centre, which is about £45 million or £50 million, but we cannot sell that in the same way as the rest of the portfolio, so the figure for the physical assets is about £140 million.



We have a portfolio of investments as well, as the convener pointed out, and that is now worth around £267 million in value. We try to maximise the returns from that, although all those investments are co-investments with other parties, and we are generally the smaller investor, so we do not have as much control over the timing of asset sales and disposals. So far this year, we have already seen about £6.5 million of income on that side, but the market has very much dried up, so we will struggle to meet the target that we have set ourselves for that this year.

**Gil Paterson:** Is the property also part of the portfolio of shared investments?

**Iain Scott:** The £267 million is financial investments, so it is generally shares in companies. There are some loans in there as well, including one or two big one-off loans, but generally it is shares through our co-investment fund or through our venture fund. That portfolio has been built up over the past 13 or 15 years as we have been investing in it, and now we want our return on it to be maximised as much as possible.

You asked about the past 10 years of sales. I do not have the exact figures in front of me, and I am sure that I could find them out, but it has probably peaked at the £20 million or £25 million level. I do not think that it has been at that level for some time. Generally, it has been at about £10 million or £15 million.

**Gil Paterson:** Could you give us those figures for the past decade, to give us a fuller picture?

**Iain Scott:** I would be happy to.

**Gil Paterson:** Maybe you could go as far back as devolution.

**Iain Scott:** Those figures are in our annual accounts and are fairly clearly set out, so I should be able to look back and get you that information as far back as our records go.

**Gil Paterson:** Thank you.

**Ash Denham (Edinburgh Eastern) (SNP):** I am interested to know what proportion of your total income is coming from the European Union at the moment.

**Iain Scott:** Our plans for 2017-18 involve EU funds of about £6.7 million, excluding Scottish Investment Bank funding. That might be about £10 million, although I do not have the specific figure, as it is included among the other figures that I have in front of me. The fund that the Government has created has European money on the back of it, so we get around 40 per cent of all the income for the main co-investment funds from there as well. There is probably about £10 million to £12 million of European funding on the investment

side, and we are aiming for £6.7 million on the non-Scottish Investment Bank funding side.

**Ash Denham:** Are you able to put that into percentages for me, even if it is just an estimate?

**Iain Scott:** If we take it to be £20 million, say, that would be about 8 per cent. That is off the top of my head—apologies if my arithmetic is wrong.

**Ash Denham:** Even if that is just a ballpark figure, 8 per cent is fairly significant. What planning has been going on behind the scenes to replace that funding if the United Kingdom leaves the EU?

**Iain Scott:** To be honest, the work that is being done at the moment is to try to maximise the funds that have been made available to us. We have been working with the EU team and the Government to try to ensure that we get as much of that funding as possible before we leave the EU. I do not know what is going to happen after that. Clearly, we would look forward to hearing what other funding streams might be available in the UK, but it is too early to say what those would be.

**Ash Denham:** Do you think that that planning has happened but you were not included in it, or do you think that it just has not been done yet?

**Iain Scott:** I am not aware of what has or has not happened on that. The Government would probably be better placed to answer.

**Dean Lockhart:** I thank our guests for being here this morning. I have a couple of questions on the budget process. Last year, the total income available to Scottish Enterprise declined by around £50 million; over the past 10 years, Scottish Enterprise's income has declined from £600 million to £290 million. What has been the main adverse impact on enterprise development in Scotland as a result of that decline? In other words, what was Scottish Enterprise doing 10 years ago, with double the amount of money, that it can no longer do now, with half the money?

**Iain Scott:** Scottish Enterprise used to run the national training programmes; in 2008, I think, those went to Skills Development Scotland. That took out about half our budget and is by far the major reason for the decrease.

Ever since, we have been operating at a gross expenditure level of about £300 million to £320 million. The reduction in the past year has been because of the reduction in our expectations on the additional income—that point was raised earlier. Those were very ambitious targets. In 2016-17, we were looking at a total in our operating plan of £341 million, but that was a significant increase on previous years. Effectively, most years since 2008, our core level of

expenditure has been around £300 million to £320 million.

**Dean Lockhart:** You provided very helpful notes on the line items and explained why there had been some movement in those items. What are the main areas that you have had to cut back in the past year? Has it been innovation, investment or inclusive growth? Will you talk us through where, in the past year or the year to come, most of the decline in spending will occur?

**Iain Scott:** I will try to do that. As you might have seen in our submission, some areas of reduction have been because certain schemes have come to an end. For example, the WATERS—wave and tidal energy: research, development and demonstration support—programme was a big contributor to that reduction.

If anything, there has been quite a sharp increase in demand for research and development and innovation funding, which we see as a real success for us. Not that long ago, we were spending £6 million a year, then £9 million a year, and we are up at about £20 million or £22 million this year. It was very heartening to hear the announcement in the past few days about the additional funding—the £45 million over three years—because it will help us to increase even more the funding going to the innovation and R and D work, which we see as key. I think that we will be in the region of £38 million for our core R and D funding and maybe about £45 million in total.

However, the demand on the R and D side has put pressure on other parts of our business. Over the past year, the direct investment side of things may have reduced because we have been funding companies more through R and D support than through direct investment. That was probably the biggest reduction last year.

**Dean Lockhart:** So that would be the equity investment, and loans—for which there is a line item—which have declined by 45 per cent.

**Iain Scott:** That is right.

**Dean Lockhart:** Talk us through what that means in practice for a business in Scotland looking for enterprise support. Is investment increasing on business expenditure for research and development but falling away on equity and loans? What does that mean for the form of assistance available to business?

**Linda Hanna:** The work that we do with businesses has not changed at all. Our approach is to understand their ambition, their growth plan and what we need to bring to the table to help them to take those plans forward. We need to understand what we can do to make a difference, so we will look at their investment plans, where

they have already looked for funding, what will help the business to grow in the long term in terms of cash flow and revenue, how much equity they need to have, and how much R and D or other grant support would allow them to take forward a specific type of project.

We look at that in the round—that is very much our approach to how we do holistic business growth. We have not seen that change at all, and we certainly have not seen any kind of shift in our ability to respond to companies' needs. It is always a blend and about ensuring that we understand that, in the appraisal of those projects, we are looking at everything in the round. When we make an investment, we also need to consider whether the business is looking at R and D support. Equally, when we appraise an R and D grant—particularly a large one—we will think about whether the company's capacity, its management team and its cash flow can support it, so that it will be able to access the things that go round that.

**Dean Lockhart:** I see that spending on equity and loans is down £30 million, while spending on R and D is up £6 million on the year. Obviously, it is not fully offset, so there is a gap somewhere in terms of enterprise support. Is the shortfall mainly in relation to equity investments and loans?

**Iain Scott:** That concerns the majority of the shortfall from one plan to the other. As I mentioned, the 2016-17 plan was at the £341 million level. That was our highest and most ambitious level of plan. Because we did not achieve the additional funding from other sources to that level, our actual outturn for that year will again be somewhere in the region of £310 million. In putting together our plan for this year, we took the more realistic figures, so there will not be as much of a real reduction in support for companies; it is just a reduction in our ambition in terms of the planning cycle.

**Dean Lockhart:** Can you talk us through the current status of funding that is available under the Scottish growth scheme? Is funding available for companies that apply for help under the growth scheme? What form does such help take?

**Iain Scott:** I will start, but Linda Hanna may also want to come in. Our main involvement in the Scottish growth scheme is through the sharply titled Scottish European growth co-investment programme, which we launched in June this year. That is a £200 million fund that is available now to companies. I am not close enough to know exactly where we are with any companies accessing those funds yet, but that programme is now available as part of the Scottish growth scheme umbrella brand from the Government.

**Linda Hanna:** The Scottish Investment Bank is closely involved in that area and is working with its

network of contacts in a European setting to ensure that awareness of the fund is being raised with fund managers, so that people know that the fund is there and what kind of things it will be targeting. That will generate inquiries, and then we will look at what comes through. SIB is actively involved in that, and we expect things to start coming through that pipeline. At a later date, we can come back and give the committee an update on how that is working, how it fits with what is already in the market, and whether we see any patterns around particular sectors or companies. Part of the reason for the fund was to raise ambition, and given the scale of the fund, it would be helpful to share that information with the committee once we have it.

**Dean Lockhart:** Just to confirm, is that an equity investment programme, and is it run by private equity firms? I take it that investment decisions are made not by Scottish Enterprise but by the private equity companies.

**Iain Scott:** Yes, the individual investment decisions are made by the co-investors, and the funding support comes from us. We had an input into the criteria for the companies that would be invested in, but the deals will be brought forward by the European Investment Fund's partners.

As far as the budget is concerned, the £10 million funding that we will spend on that this year is over and above the plan that was published at the beginning of the year, because the funding was not available at that time. Our plan will be increased by £10 million this year, £20 million next year and £20 million the year after that.

11:15

**Linda Hanna:** On Iain Scott's point, we pushed hard for the criteria for funds coming into Scotland to be able to meet Scotland's requirements. In particular, we made sure that it was about ambitious, internationally focused companies, because we know that they will grow the economy, as well as about small and medium-sized enterprises, based on the EU definition of an SME. We made sure that the type of projects that we will support will be what Scotland needs.

**Gillian Martin (Aberdeenshire East) (SNP):** I was going to ask about the criteria. As you know, one criticism has been that Scottish Enterprise, in selecting companies to be account managed, has missed out on SMEs. Will you expand on the criteria? For example, you have not mentioned anything about inclusive growth. You were here when the HIE representatives talked about their criteria for support and, given what was elucidated in response to Mr Lockhart on how companies are chosen, will the new fund focus on things such as

work practices and inclusive growth, rather than just growth and the bottom line?

**Linda Hanna:** I do not have any more on the criteria, but we can get back to you on that.

With regard to the companies that we work with, I expect that the companies that will come through that fund will be companies that are known to Scottish Enterprise through SIB. We will expect to have the conversations with those companies and to give them the wider support that we know help them to be successful. For example, if we were looking at R and D, we would not just look at equity. We would have conversations with the company about how it will reach its international ambition, what is going on in the rest of the company, and what other things we could do to support the company's workplace practices and innovation. I would expect such discussions to be part of the wider conversation that we have with companies as we go through the assessment process with them when they apply for funds.

**Gillian Martin:** I would like to know more about the criteria. I would be grateful if that information could be given to the committee so that we can look at it.

**Iain Scott:** I am happy to ask our SIB colleagues to send you the detailed criteria. However, I have a couple of notes to add to what Linda Hanna said.

The criteria are that businesses are commercially viable, were established and are based in Scotland, and have growth and international ambition. They must also meet the EU definition of an SME, which is a business with fewer than 250 employees and an annual turnover of no more than £50 million. The new growth scheme is purely about support for SMEs.

There are some restricted sectors that will not get support, such as retail estate, property development, banking, insurance and that type of thing. Essentially, it is the productive companies in the SME band that will be eligible for support. We will send you more detail.

**Jackie Baillie:** I will touch on that before I move on to questions about exporting.

The Scottish growth fund was announced in 2016 because we urgently need to grow the economy as a consequence of Brexit. Nobody would disagree with that. Is it the case that not one single grant or loan has been made to any company or project so far?

**Iain Scott:** Our element of that is the Scottish European growth co-investment scheme, and I am not aware that any grants or loans have been made yet. I can confirm that when I have spoken to Scottish Investment Bank colleagues back at the office. We launched the scheme in April this

year, so, as Linda Hanna said, we are working with co-investment partners to make sure that they are aware of it. However, I am not aware of any grants or loans having been made at this point in time.

**Jackie Baillie:** We want it to succeed, so giving the money away would be a good thing.

**Iain Scott:** Yes. I have £10 million in my budget to use for that this year and, hopefully, that will happen.

**Jackie Baillie:** Excellent. Before I ask questions on exporting, will you clarify whether the five budget lines under the title of internationalisation equate to the budget for Scottish Development International? They are for international services and support, market development, international marketing and research, overseas premises, facilities management and staffing.

**Iain Scott:** That is a good proxy. We do not have a Scottish Development International budget—it uses all those budget lines and that is very much the area that it works in. It might be that other teams are involved in that work, perhaps on the marketing side, but that is a good proxy.

**Jackie Baillie:** It is just that marketing is not included elsewhere so I assumed that those lines are the SDI budget. On the assumption that that is the case, your business plan for 2015 to 2018, which was referred to last year when Scottish Enterprise appeared before the committee, suggested that you anticipated a budget of £42 million for 2016-17 and £43 million for 2017-18. However, the budget for those years is now £39 million and £40 million. That is a few million pounds short of what you had anticipated. Is that correct?

**Iain Scott:** I trust the figures that you are quoting. I do not have the 2015 to 2018 plan in front of me, although I do have the 2016-17 figures.

**Jackie Baillie:** My source is Lena Wilson's comments to the committee last year—I will take that as a good source.

**Iain Scott:** She will definitely be correct.

**Jackie Baillie:** On that basis, the budget is down, yet the Scottish Government in its programme for government in both 2016 and 2017 says that it is an area that matters. In 2016, the Government talked about an additional £3.5 million for new investment hubs in London, Dublin and Brussels. That was announced in 2016 and reannounced in 2017. Can you tell me what new money you received for that?

**Iain Scott:** I think that the majority of the money for the investment hubs has been dealt with directly by the Government, although Linda Hanna

might correct me on that. We may have got an element of that.

The biggest element of additional money that we received for internationalisation is for the doubling of the staff resources in Europe. Recruiting for those extra 20 posts is under way at the moment. I do not have the specific figure for that, but it is in addition to our 2017-18 budget figure because the initiative was introduced after our budget was published. The money is additional and the posts are fully funded by the Government. We have a guarantee on that and so that money will come through this year.

**Jackie Baillie:** So the increase in staff from 20 to 40, which was the doubling announced in 2016, has not yet taken place, but you are anticipating that it will be completed as an action in 2017-18. Is that correct?

**Iain Scott:** It will be completed by 2017-18—I think by December 2017. Our colleague, Paul Lewis, reported to the board at the tail end of last month that that work is well under way and we anticipate that it will be complete by the end of the calendar year.

**Jackie Baillie:** So the announcement in 2016 was giving us advance notice, rather than properly announcing something that would happen in that year.

**Iain Scott:** You may describe the situation better than I can.

**Jackie Baillie:** I am not asking a question; I am making an assertion.

The six pilot local and regional export partnerships are the other element that was announced in 2016 and reannounced in 2017. Are any of those live? They are in addition to the chambers of commerce stuff, which is accounted for separately. Are you responsible for any of those local or regional partnerships?

**Linda Hanna:** As part of its work, the enterprise and skills review has been considering regional partnerships; there has also been the on-going work with the chambers of commerce that you mentioned. As far as I am aware, the work to set up those pilot local export partnerships is still on-going. I do not know which specific ones are up and running, but we can get you more details on that.

**Jackie Baillie:** Having been in government many moons ago, I worry about the pace of implementation. Those are two major things that the Scottish Government says are important, yet we are half way through 2017-18 and not one bit of them has been implemented so far.

**Linda Hanna:** Can I come back to the hubs and give you some supplementary comments on that?

**Jackie Baillie:** I am moving on to the hubs, so you might be able to answer my question on that.

We had an announcement of an investment hub in Paris, which is great. We have previously heard about £3.5 million for London, Dublin and Brussels, and now we are getting Berlin and Paris. Are you getting additional money for that?

**Linda Hanna:** Iain Scott might want to answer on funding.

**Iain Scott:** Yes. I am not aware of the specifics of additional funding for that. As I said, I think that funding for the hubs is being dealt with directly by the Government. I can check and confirm that.

**Linda Hanna:** The hubs are led by the Scottish Government. They are all very different, not least because the markets and geographies are very different, so the engagement that Scotland needs to have in those places is very different. The Dublin hub was based on the Government presence that was already there. As part of the expansion of SDI's EU staffing, we will be putting a staff member in Dublin to ensure that we follow through on the trade and investment opportunities. That is one model.

The London model is a very different model. Given London's importance in relation to investment coming into the UK and then up to Scotland, we already had an established SDI presence in London, and we have built on that. The new Scotland house is now open and there have been a number of events there. A number of companies are signed up to the new membership scheme that we have there, so that is up and running and it has been working very well.

London is also being used as a hub for collaboration, particularly with the Department for Business, Energy and Industrial Strategy and others. To go back to the question of EU funding, we are pushing really hard right now in relation to UK Government sources, the new industrial strategy and new funds, so we are spending more time with colleagues in London to make sure that we join those things up as well.

There is also the Brussels model. We have had Scotland house, which is operated by Scotland Europa, in Brussels for a very long time, and we have taken the opportunity to look at what that model needs to look like in the future. What types of innovation and investment opportunities will Scotland pursue post-Brexit? Clearly, beyond the funding element, a lot of the work that we do in Brussels is about engaging with partners and stakeholders and looking at best practice.

One of our big EU funding projects this year is around the vanguard initiative and subsea capability, particularly in relation to energy. That is an example of a partnership project rather than a

structural funds project, and it very much came out of the partnership work that we have done in Brussels. We have been working with the Government on refreshing and refocusing Scotland house in Brussels. I am deeply involved in that because Scotland Europa is a subsidiary of Scottish Enterprise and, in terms of the funding model, we partly support it financially, with the Government involved in other parts of its funding.

The Berlin hub is getting up and running and the Paris hub will be new. All the hubs are quite different but they are all collaborative and very much Scottish Government-led hubs—the Government owns and leads on them. However, we have come to the table, as have other agencies, from the point of view of what we can bring, both financially and in terms of the people resource and the connections that we need to make in-market and back in Scotland, to make the hubs work.

**Jackie Baillie:** That is very helpful. I have one final question on foreign direct investment. There has clearly been some positive news in that regard. When I asked Lena Wilson about her targets last year, she talked about “a big hairy target”, which was new to me, I have to say.

What jobs have been created through foreign direct investment? We are entering the final year of your three-year target base. The target was to achieve 22,000 to 28,000 planned jobs through inward investment; the reality is that you have achieved about 14,800 jobs. We know from the last two quarters that the trend in job numbers now appears to be downwards. How much will you miss that 22,000 to 28,000 jobs target by?

**Iain Scott:** As reported to our board last month, we are still on track to achieve at least the bottom of the range on that target. We are not planning to miss it, so in the third year, which we are in at the moment, we expect to be able to achieve that.

**Jackie Baillie:** That is very interesting. Do you go back to check the number of jobs that are generated or is it just an estimate? The last quarter showed a quite severe decline in the number of jobs that were created as a result of that investment.

**Iain Scott:** We evaluate the work that we do across the whole range of our business and certainly there have been evaluations on the SDI side. I am sure that the evaluations look at the actual jobs that were created compared with the forecasts that are given when the announcements are made.

**Jackie Baillie:** Could you share that information with the committee?

**Iain Scott:** Yes, we can do that.

**Jackie Baillie:** That is great. Thank you.

**Gillian Martin:** My question follows on from Jackie Baillie's line of questioning. Internationalisation is obviously a key priority for Scottish Enterprise and for the Government. Last year, when Scottish Enterprise came in to see us, there was talk of it commissioning analytical research into how its programmes to target internationalisation were actually working and how effective they were. Do you have anything to tell us about any evaluation that you have done on those programmes? If you have done such an evaluation, when will it be released and what might it include in terms of an analysis of your programmes?

**Linda Hanna:** The evaluation for SDI has been done this year. We are just finalising that at the moment. We plan to publish the evaluation online, as we do with all our evaluations. The analysis is still being finalised and as soon as we have that, we will publish the evaluation, but we will also make sure that we share the headlines with the committee.

11:30

**Gillian Martin:** Have you got a date for that?

**Linda Hanna:** I do not have a date, but I know that it will happen quite soon because we are very close to the end of that work. We have been looking at the economic impact and the lessons learned. It will happen very soon; I will confirm the date.

**Gillian Martin:** I know that you will not be able to tell us anything about the conclusions; you will want to leave that until publication.

I have a question about the methodology that you use, which I suppose is a wider question about how Scottish Enterprise assesses what it does. When you have made an intervention in a company, whether it is a business support or a financial intervention, how do you assess its effectiveness on the success or otherwise of the company?

**Linda Hanna:** We do two things. At an individual company, we will agree something with the company. Let us say that we are going to help it with a piece of work on research and development. We agree that there will be a set of metrics that relate to our funding. It could be jobs or a piece of technical work that needs to be done, and milestones will be set around that. We might agree that the company will work with the wider supply chain in the local area or more widely.

We will agree a set of things that are appropriate to that company and set criteria for the drawdown of our funds that the company needs to meet. Over a period of time, we will discuss with the company how it is progressing, whether it is

going at the pace that it thought it would, what factors are getting in the way of that and what else we could be doing. We set all that out at the individual company level, measure it over time, and take a view on the difference that it is making to that company. We also get feedback from the company.

More broadly, we also do evaluations, and you have picked up on that in terms of SDI. Some time ago, we moved away from doing individual service evaluations. As we have already discussed this morning, so many things are interrelated. An example of what we do is in the SDI internationalisation evaluation. We will do an evaluation of account managed companies into which we have put a suite of interventions and talk about everything that we have done with those companies and what difference it has made. We last did an account management evaluation in 2012-13, and we are due to repeat that later this year.

That gives us a much broader view of a sample of those companies. We do not ask all the companies but our methodology means that we have a robust sample of the companies that we work with. We make sure that that sample is sliced and diced by size of company and sector, and that it is robust enough for us to be able to draw conclusions.

**Gillian Martin:** You just use a sample of companies; you do not put all the data from all your interventions into the mix when you are coming up with a report like the one I mentioned in my first question.

**Linda Hanna:** We will use the data that we have, but if we are going to go out and speak to companies and get customer feedback, we tend to take a sample as opposed to going out to all 2,000 companies. We do a combination of things to get that assessment.

**Gillian Martin:** Will you break down the analysis that we talked about into individual programmes? For example, will you look at the Scot exporter programme in particular, or at how programmes that were specifically targeted have worked and how successful they have been?

**Linda Hanna:** Yes, when it is possible to do that. It might be that that company has had Scot exporter help and something else. When it is possible to draw a line around a particular programme, we will do that. If that is not possible, we will not be able to do it.

**Gillian Martin:** My final question is about my part of the world, Aberdeenshire. In the north-east, we have a lot of highly skilled businesses and people. What analysis have you done or how have you intervened to help them to diversify into areas other than oil and gas?

**Linda Hanna:** The oil and gas task force has been operating for some time. The work that we have been doing has not just been about jobs; it has looked at the industry overall, the opportunities that the industry has today and those that it will have tomorrow. We are particularly looking at resilience when companies, particularly supply chain companies, diversify into other markets. Renewables are one opportunity.

We have been doing a lot about the subsea opportunity for Scotland. We have published a subsea action plan and we are working with Subsea UK on Scotland's share of that. The global market is about £50 billion and Scotland has a £7 billion share of that, so the country is punching well above its weight. As that market grows, it is projected to be about £140 billion to £150 billion globally. If we grow with it, Scotland could take significant advantage of that. We have been working with companies in the supply chain that could move into that area. We have been putting in place, for example, the national hyperbaric centre in Aberdeen and the centre for flow measurement and fluid mechanics in East Kilbride, and we have been working with the Underwater Centre in Fort William. We are ensuring that the industry has an opportunity to be underpinned by capability and we have been working with individual companies on the things that they need to do in that regard.

We have invested a lot more in R and D and innovation in oil and gas companies. A big pillar in the oil and gas strategy that was published in 2016 was to help companies diversify. We have been doing a lot to bring forward innovation support for oil and gas companies, and we have seen the fruition of that. More than 800 companies, specifically in oil and gas, have been supported in diversification and leadership, and £15.9 million of our support has gone into those companies for innovation and R and D. We can give the committee further details of that if you are interested. We are looking at the work that we have done. Where is the oil and gas industry now? What else could we be doing? What do we need to start to make sure that we get behind that?

**Gillian Martin:** I am particularly interested in your analysis of how that support has been targeted and where it has been successful, particularly among smaller companies in the supply chain that been very badly hit and need to be able to diversify. I would welcome it if more analysis on that was fed back to the committee.

**Linda Hanna:** I am delighted to share that. We can share some company examples, in fact. I sit on something called our single approval group, which the larger R and D grants come through. A number of oil and gas companies have come through, particularly in relation to R and D

investments that they are making to move into new markets, partly to do with diversification in Scotland and the North Sea and partly to do with new export markets. There is a raft of helpful information that we can share with the committee.

**Iain Scott:** Before we move off the international theme, we cannot let the moment go by without recognising the work of our SDI colleagues in securing more than 7,800 jobs this year from inward investment activity, more than 2,300 of which are high-value jobs. I am sure that the committee is well aware of the EY attractiveness survey, which shows that not only has Scotland retained its top position outside London for inward investment projects, it is number 1 in the country for R and D projects. That has led to an increase in our budget for R and D but has gone a long way to securing inward investment and achieving those figures.

**Jamie Halcro Johnston:** You say in your submission that the Scot exporter programme supported 1,578 companies, 48 of which are in the Highlands and Islands. Why is there such a large difference between the overall total and the number in the Highlands and Islands?

**Iain Scott:** I am sorry but I do not know much of the detail of the Scot exporter programme and why there might be such a difference. I am not aware of whether Highlands and Islands Enterprise runs other programmes in a similar vein. I can work with our colleagues in the Highland and Islands to see what the reason is for the difference.

**John Mason:** Moving on to inclusive growth, Mr Scott, I think that you said that you did not have the table in front of you that I have in front of me, which is the 2015 to 2018 measures. There is a new measure, which is:

“engage and support 800-1050 companies to develop approaches to fair and progressive workplace practices”.

I think that that measure did not apply in 2015-16 and 2016-17 but has come in for 2017-18. Will you tell us a little bit about that and what it means?

**Linda Hanna:** A bit like Highlands and Islands Enterprise, we are talking about a tracking measure. When we introduce something—particularly something activity based—we have a tracking measure over a period of time, partly just to understand the new activity and make sure that we learn from it. As you say, it is a new measure. Back in 2015, Scottish Enterprise sent out a three-year business plan. We have been sticking with the ambition that we had for three years, but we felt that, this year, we needed to reflect an additional measure to demonstrate the work that we are doing.

It looks in particular at what we are doing in our work with companies to help them consider the fair

work agenda and what they are doing in their workplace. That includes workplace practices in their leadership approach, how teams work and their use of employee ownership models, if that is appropriate for a company. We look at how they use young people, particularly in relation to the ScotGrad scheme, which we run across Scotland, and we talk to them about their approaches to diversity and gender within that. We talk to them about the business pledge and the practices in it, so we get a sense of what kind of approaches a company uses. We are measuring and tracking a range of things this year relating to the adoption of those practices by companies—how they are being taken up and, although it is not about the impact, the early signs of the difference they are making.

We are looking at that alongside our work in sectors, and particularly in high-employing, low-productivity sectors, such as tourism, food and drink, and construction. We have been working on the industries setting out how they want to start to shift some of the workplace practices they have. For example, yesterday I was at the launch of the new construction innovation factory in Lanarkshire. That is a big part of the construction industry responding to what it needs to do to better collaborate with off-site manufacturing and R and D but also to create an image that will bring in a talented workforce in the future, particularly women. Industries needs to be able to demonstrate what those opportunities would look like, so we are encouraging and supporting them to do things that will encourage those types of workplace practices.

**John Mason:** That is very helpful, and it covers some of the issues that I was going to ask about. The wording in your business plan is:

“engage and support 800-1,050 companies”.

In the answer that you just gave, you used words such as “talking to”. I accept that this is a difficult area to measure but, obviously, you can engage with a set number of companies that are largely under your control. Are you able to measure the outcome of that engagement, or do you think that it is going to be very long term?

**Linda Hanna:** You are absolutely right. What we can measure is the things that we do. We have helped 275 or so companies with workplace innovation. We have helped about 170 companies put a graduate in the company through the ScotGrad scheme. We know those kinds of numbers, but your question is whether that help is making a difference. Tracking the difference that it is making in those companies is going to be longer term.

With regard to getting a sense of how our work contributes to those wider outcomes—in terms of

either a company's ambitions for innovation or international work, or the type of workplace that it is—and of how we might measure that more, some of it can be done using existing mechanisms. Investors in People and Best Companies surveys are ways in which companies already do that. The issue is getting a sense of how we might track that in the future. Those are not standards that we would push on companies, but we want to talk to them about how they measure their employee engagement—which they have started to do—and about what else we could be doing to support them on that journey.

**John Mason:** If we took something specific, such as women in construction—which is presumably quite a male-dominated sector—a lot of things will have to change, such as family attitudes, peer pressure and a whole host of things. I am sympathetic to you in a sense, because I wonder whether you could ever measure Scottish Enterprise's impact on that picture. There are going to be so many other things that will have to change along the way.

**Linda Hanna:** You are absolutely right. The work that we do directly with companies, we can measure quite directly. If we are supporting a construction company to introduce something, we can get a sense of what it is doing. However, the industry is taking quite seriously that it needs to shift how it portrays itself as it automates with digital technology and smart manufacturing. The industry sees big opportunities, which may also make it more attractive to parts of the workforce that it has not attracted in the past. It will be able to measure what the uptake of that looks like.

We will be able to measure how many young people go into apprenticeships and the types of apprenticeships that are being designed. We will then be able to ensure that the link into companies is seen.

Part of our role is encouraging and supporting the industry to put those practices in place. We also do some work directly, such as putting funding into the innovation factory, as was announced yesterday. We believe that putting that in place will encourage companies to come to see, prototype and test some of those practices. They are more likely to adopt something if they have seen it. We can then track the companies that start to take it forward to see what difference it makes.

11:45

**John Mason:** That was helpful. Thank you.

One of the measures under the “Inclusive Growth” heading in the performance table—which is difficult to read, because it is all in green—is



“attract 22,000-28,000 planned jobs through inward investment”.

It was not immediately clear to me why that measure was included under the “Inclusive Growth” heading. Can you explain what the connection is?

**Iain Scott:** Yes. That measure is in there because our activity in that area is about half of our regional selective assistance activity and it is the activity that is geared towards job creation. I appreciate that not all of those jobs might be inclusive jobs, but we felt that that activity made a significant contribution to the inclusive growth agenda, so when we put the business plan together a couple of years ago, we thought that that was the best place to put it.

As Charlotte Wright said earlier, a lot of our activity contributes to several, if not all, of our objectives, whether on international activity, investment activity or inclusive growth. The best projects contribute to all of them, and we wanted to recognise the element of our regional selective assistance work that was jobs related.

**John Mason:** From an inclusive growth perspective, are we talking mainly about getting people who are struggling financially—poorer people—into jobs or into better jobs? Is that why the activity is inclusive?

**Iain Scott:** Regional selective assistance is targeted at areas that have a greater requirement for those jobs; it is available only in certain geographic areas. From that perspective, it goes some way towards the inclusive growth agenda. Not all of it is about individual jobs, but we certainly encourage that in the RSA offers that we make.

We have mentioned previously our young workforce activity, which we encourage all our RSA applicants to implement. I believe that every one of the RSA applicants whom we have encouraged to do that has included that activity in the plan for the funding that we give them.

**John Mason:** Would you expect a higher proportion of women and people from the ethnic minorities in the 22,000 jobs that we are talking about compared with the existing workforce, or do you think that the proportion of women and people from the ethnic minorities in those jobs would just reflect the pattern in the existing workforce?

**Linda Hanna:** I think that it is more likely to reflect the pattern in the existing workforce.

As Iain Scott has said, there is a place dimension to regional selective assistance—that is what the criteria are about—which means, we hope, that projects and jobs are directed to areas where they are most needed. There is also the work that we do with individual companies,

particularly companies that are new inward investors to Scotland or ones that are making a follow-on investment. That involves looking at the type of jobs that they are creating and the best way of filling them.

Iain Scott mentioned the new approach that we introduced last year. We have asked the companies involved in the 150 or so projects that have come through RSA since then whether they would like to sign up to an invest in youth policy. Depending on the area, that could involve all sorts of activity to do with investing in youth in the community, such as creating jobs for young people, going into schools and talking about careers, or mentoring or coaching young people. That policy has been quite successful. Companies buy into that from a corporate social responsibility perspective and because they see the benefits of investing in their future workforce.

Most of the people who take up those opportunities will probably reflect the profile of the existing workforce. We are making sure that we are tracking things such as gender; we did not have those numbers in the past, but we do now. We are also making sure that, when we talk to companies, we address the fact that it is easier to encourage diversity in the workforce in some sectors than it is in others. We are working to improve the perception of industries that are not particularly attractive from the point of view of diversity, and we are trying to encourage an understanding of where flexible working practices would make a difference and to show companies how that has paid off in other companies. We are doing a lot more peer-to-peer work. It will take time, but we are hopeful that that approach will work. That is part of our job, but industry also needs to create some of those positive perceptions.

**Richard Leonard:** This meeting is principally about budgets. Linda Hanna said earlier that the work that her organisation does has not changed at all, but I want to challenge her on that. In an email that was sent out at the start of this financial year by the director of the Scottish Investment Bank to operational staff in Scottish Enterprise, she said:

“We have insufficient budget to meet anticipated demand for everything we are being asked to consider under enhanced SIB ... We therefore need to prioritise our funding and people resource ... which will ultimately mean us investing in some companies and not others, even when they might be strong investment propositions ... As funding this year is more constrained than to date ... We will continue to support the pipeline of new investment opportunities but this may be at a reduced rate than last year”.

That does not sound to me like business as usual.

**Iain Scott:** The specific issues raised in that email were clearly a demonstration of the tough

prioritisation that we have had to do this year. Of course, we have to prioritise every year, but that was a reflection of the particular situation. As I recognised earlier, our direct investment work is probably the area that has had the toughest prioritisation, but it has been helped during the year by additional funds for the new European investment fund programme, which means an additional £10 million for the Scottish investment bank as well as a further £20 million next year and £20 million the year after that. The prioritisation has been tough, but I do not think that there is anything wrong with that. We are spending public money, and we want to get the best return for every pound that we spend.

**Linda Hanna:** Our approach is the same; it has always been about getting the most impact for the resources that we have available, and joining up equity and R and D or the other things that we do is something that has not changed. It has always been about understanding a company's plans, where we can add most value and where we can get the biggest impact. That is what I meant by the comments that you referred to—I do not think that that has changed. As Iain Scott has said, we are seeing unprecedented demand, which is great for the projects that are coming through in the economy right now. However, although that is great, we need to prioritise where we can make the most impact.

**Richard Leonard:** The question for the committee is whether that means that Scotland is missing out on business growth opportunities and job generation opportunities because the capital finance is not there.

**Iain Scott:** I would say, as I am sure Lena Wilson has said to the committee in the past, that if additional funds were available we would make good use of them. We are looking at our 2018-19 budget year at the moment, and our project list is well in excess of the funds that we expect to have available.

Somebody asked about the annualisation of the budgets; it would certainly be preferable to have budgets over a longer period, and I am sure that the Government would want that too. However, that is not the situation at the moment. We will be prioritising into the year that I mentioned, and I hope that the extra money that has come in from the R and D and innovation work will go a long way towards helping with some of those issues. Next year, it will probably be our business infrastructure activity that will take the toughest prioritisation, and we will put every penny of the financial transactions money that we get from the Government towards the Scottish Investment Bank to ensure that we maintain as best we can its activity going forward.

**Richard Leonard:** I am glad that you mentioned business R and D, because that has been put under the spotlight with last week's announcement by the First Minister of an extra £15 million a year over the next three years to make up a shortfall. Previously, there was concern that the practice of making up-front payments, which are especially important to SMEs, was being withdrawn and that all payments were being held back until May 2018, so there would be no R and D assistance until May next year. Can you tell us how things stand in light of that additional funding? Does that now mean that companies can get up-front payments and that they will not have to wait until May 2018?

**Iain Scott:** On the large R and D front, there is only one Scottish Enterprise programme that I am aware of that has up-front funding: our SMART Scotland programme, which has had up-front funding in the past. There has recently been an internal audit review of an issue with it, and it was suggested that we revisit it to make it more commensurate with the rest of our funding. With every other programme, we make offers and commitments to companies, but we expect them to start the project first so that we can check that activity is happening before we pay our contribution. There are budget pressures on that side of things, but those are not the only reasons why we are looking to review the payment profile of the SMART grants. That said, I do not think that that will prevent any projects from going ahead.

As for wider research and development, the rescheduling of payments into the next financial year when we know that the funds will be available has always happened in discussion with the companies involved. Again, I do not think that that will slow down or stop any of the projects affected. One or two companies have not been able to take that approach, and we have agreed to pay them in this financial year. However, to manage some of those budgets, we had to move some of our expenditure into next year.

**Richard Leonard:** So it has been a budget-driven decision rather than a choice based on best practice.

**Iain Scott:** On the research and development side, yes. On the SMART side, it was a combination of both, to be honest.

**Richard Leonard:** Will you be monitoring that? After all, the withdrawal of that facility might not necessarily show up, and it seems to me that you need to monitor demand and whether people have been turned away. The choice that people are making whether to invest in Scotland or somewhere else might be an international one, and it might depend on the tipping point of the research and development support being there.

**Iain Scott:** You are absolutely spot on. I mentioned earlier the growth in research and development-related inward investment. I know of one live case; I do not know where it is so I cannot give you the company's name, but we are aware of it and we have been doing everything we can to manage our budgets to make sure that, if expenditure is required in the financial year 2017-18, it will be made available. I do not see a problem with that, but we need to manage our tight resources. If we can push back some expenditure that does not impact on projects, that is what we will have to do. I believe that there is not one project that is not happening because of the management of budgets at the moment.

**Richard Leonard:** I have a quick final question on a different subject: the creation of the south of Scottish enterprise board. Are you receiving additional funding to set up that new structure?

**Iain Scott:** As our lead on the executive team for the south of Scotland, I know this issue intimately.

Scottish Enterprise is not being asked to set up the south of Scotland agency; we are one of several partners that will be involved. Its funding will come directly from the Government two years hence in 2019-20, and we are working with our partners down there to put interim arrangements in place for between now and then. The ambition is to have those arrangements in place by the end of this calendar year, and we are working closely with partners on that at the moment.

There is no additional funding for that work, so we might need to make choices about how we spend some of the funding that we have down there. It is only right that, like Highlands and Islands Enterprise, we work with partners, as we have done in the past, to target certain specific areas. That sort of approach has not been taken in the past in that area.

**Richard Leonard:** Are you anticipating any additional funding to help you do that over the next two to three years?

**Iain Scott:** Not at all. I am not anticipating any funding for that interim period. The only thing that I am anticipating is the budget that will come in two years. There will be some reduction in our budget as money is channelled directly to the south of Scotland agency, but I have no idea what the scale of that will be, as we have not yet reached that stage in the discussions.

**The Convener:** Dean Lockhart has a brief follow-up question.

**Dean Lockhart:** I have another question on the budget, but this time it is about staff costs. According to the spreadsheet, staff costs as a percentage of total income increased last year

from 19.7 to 22.5 per cent. Given the squeeze on budgets now and going forward, what steps are being taken to bring down those costs?

**Iain Scott:** I am sure that you are right about the percentages. You will see in our running costs that there has been a reduction of about £4.4 million. That was the first area that we looked at, and we looked at it hard to try to compensate for some of last year's resource reduction, which I think was 7.5 per cent.

In order to manage our staff costs, we implemented a recruitment freeze from last December. The absolute numbers will be coming down, but I accept that we might not be able to bring the percentages down as fast as in other areas of the business. After all, staff costs are semi-fixed. With the no-redundancy policy—not that we want to implement any other programme—there is very little chance of reductions other than through normal turnover, and our turnover rates have been pretty low for the past few years.

**The Convener:** I thank our two witnesses for coming today. We move into private session.

11:59

*Meeting continued in private until 12:45.*



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