OFFICIAL REPORT
AITHISG OIFIGEIL

DRAFT

Economy and Fair Work Committee

Wednesday 11 September 2024

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Wednesday 11 September 2024

CONTENTS

ECONOMY AND FAIR WORK COMMITTEE
22nd Meeting 2024, Session 6

CONVENER

*Claire Baker (Mid Scotland and Fife) (Lab)

DEPUTY CONVENER

*Michelle Thomson (Falkirk East) (SNP)

COMMITTEE MEMBERS

*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
*Murdo Fraser (Mid Scotland and Fife) (Con)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Lorna Slater (Lothian) (Green)
*Colin Smyth (South Scotland) (Lab)
*Kevin Stewart (Aberdeen Central) (SNP)
*Brian Whittle (South Scotland) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Stuart Black (Highlands and Islands Enterprise)
Anthony Daye (South of Scotland Enterprise)
Nick Kenton (Highlands and Islands Enterprise)
Vicki Miller (VisitScotland)
Jane Morrison-Ross (South of Scotland Enterprise)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy and Fair Work Committee

Wednesday 11 September 2024

[The Convener opened the meeting at 09:32]

Decision on Taking Business in Private

The Convener (Claire Baker): Good morning and welcome to the 22nd meeting in 2024 of the Economy and Fair Work Committee.

Our first item of business is a decision on whether to take item 3 in private. Are members content to do so and to consider pre-budget evidence in private?

Members *indicated agreement.*

Pre-budget Scrutiny 2025-26

09:33

The Convener: Our next item of business is an evidence session with the enterprise agencies and Visit Scotland, which will inform the committee's pre-budget consideration. Each agency has provided a written statement, which members have.

I welcome: Stuart Black and Nick Kenton, respectively the chief executive and finance director of Highlands and Islands Enterprise; Jane Morrison-Ross and Anthony Daye, respectively the chief executive and director of finance and corporate resources of South of Scotland Enterprise; and Vicki Miller and Ken Neilson, respectively the director of marketing and digital and director of corporate services of VisitScotland.

We have six witnesses today, so members and witnesses are asked to keep questions and answers as concise as possible. I have asked members to direct their questions to one person from each organisation, and I ask that person to reply and to bring the other person in only if they feel that there is additional information that they cannot provide.

Today's focus is on the budget. Last week, Parliament was given the programme for government and the in-year financial statement. The Government is prioritising tackling child poverty and all parties agree that part of the solution to that is to grow our economy.

We understand that the Government is under significant financial pressures, but all three organisations that are represented here this morning have had fairly significant cuts to their budgets. Can you tell us what impact the funding pressures that you are facing this year, and those that you have faced in recent years, are having on your ability to deliver on your core objectives to support the regions and Scotland in growing the economy?

I come first to South of Scotland Enterprise—you can decide between you who wants to lead on that.

Anthony Daye (South of Scotland Enterprise): I will take that one. Our budgets, like those of all agencies, have been under tremendous pressure, and we are seeing that this year, as well. In particular, South of Scotland Enterprise has had a big challenge with financial transactions, for which we do not have a budget in this year. We went about meeting that challenge by seeking to utilise our other two sets of budgets—capital and resource—in as innovative a way as possible, as well as leveraging money from public and private partners. Rather than worrying about what we do not have, we have tried to focus on what we can do with what we have, and to push on with partnerships that can bring in additional income and finance.

The Convener: I come to Highlands and Islands Enterprise next.

Stuart Black (Highlands and Islands Enterprise): Good morning convener—madainn mhath.

Like South of Scotland Enterprise, we have also had quite significant budget reductions. In the last financial year, we had cuts of 5 per cent in our revenue budget and around 10 per cent in our capital budget, and our financial transactions budget was removed. We have looked at a variety of ways of tackling that.

On revenue, we have looked to make some savings on staff. We have vacancy management in place, and we have reduced our staff numbers over the past couple of years by around 20. We have also looked to insource some activity—

The Convener: I am sorry to interrupt, Mr Black, but you said that you had reduced the organisation by 20 members of staff. How has the work that they would previously have done been absorbed?

Stuart Black: We have used vacancy management to control our budget around staffing—that is what I am getting at. We have also brought in younger members of staff. Previously, we had an ageing workforce, with few people under the age of 30—we now have 13 per cent of our workforce under 30. We have looked to replace people in different ways, but it has meant some reductions in activity.

We have also looked at the use of external consultants and reduced our budgets for that by doing some of the work in-house, which has proved to be quite good in terms of finding savings. We are also looking to bring in additional sources of revenue to support the work that we do—for example, through third-party funding.

On financial transactions, we are unable to offer loans through that route, but we can do so through capital, and we have done some of that. We have also enhanced our capital budget by bringing in third-party funding. For example, members might be familiar with the spaceport project in Sutherland; we have brought in some money for that from the UK Space Agency and the Nuclear Decommissioning Authority.

Those are the types of things that we have been doing to tackle the budget challenges that we face.

The Convener: That is helpful, because I am interested in what you say in your submission in that regard. You referred to third-party additional support for funding, and you provided the spaceport as an example of that. However, you have also talked about “reductions in activity”. Are there particular areas where you had to reduce activity? You have chosen priority areas on which to focus. Which areas are being reduced?

Stuart Black: Some of the areas that we have had to reduce include management and leadership training; the reductions have been more on the revenue side. We have also had to cut back on things such as our graduate placement programme, which was actually very successful at bringing younger people into organisations across the area. We have had to make some quite significant reductions in activity.

The Convener: I come back to South of Scotland Enterprise. Now that we have heard from Mr Black of Highlands and Islands Enterprise, do you want to say whether, given the budget pressures, there are areas where your organisation has prioritised funding and areas where you feel that you have had to reduce activity?

Anthony Daye: I will start, and then pass over to the chief executive—unless you want to start?

Jane Morrison-Ross (South of Scotland Enterprise): No, you can start.

Anthony Daye: I will jump in on some of Stuart Black’s points. We saw where challenges were coming about two years ago, so we tried to prioritise things up front with regard to what staffing we needed and what projects we were going after, and how that would make a bigger impact on the south of Scotland. We were able to do that because we were a less mature, younger agency. We took the opportunity to ensure that, come the times that we are in now, we would be the right size to meet the challenges, including the budget challenges, that we face.

Jane Morrison-Ross: We are very conscious that the south of Scotland has not had the focus that the Highlands and Islands region has had for 50-plus years, and we have been working hard to tackle some of the foundational challenges and blocks to economic development and sustainable growth.

We have kept a priority focus on housing, infrastructure, skills and on having our enterprising communities team work with local communities and with community planning partnerships and other community development trusts to look at the wellbeing economy. We are also not taking our eyes off innovation in the traditional and emerging industries that come under the banners of the natural capital innovation zone and the just transition.

We have built many partnerships in the past couple of years to help us do that, including with Scotland's Rural College, CENSIS, CivTech Scotland and Zero Waste Scotland. We continue to build on those, most recently in securing the pilot pathways programme with the Scottish Government to accelerate our work in innovation and entrepreneurship across rural areas.

The Convener: My next question is for VisitScotland. In previous budget submissions, the committee has asked the Government to prioritise tourism or to protect that part of the budget, but VisitScotland is facing a 10 per cent real-terms decrease in its budget. Vicki Miller, do you want to say a bit about that? There will be an opportunity for other members to ask more in-depth questions, but perhaps you can give us an overview of the impact of the budget cuts.

Vicki Miller (VisitScotland): As they have for others, wage inflation and the cut to core grant in aid have squeezed what we would call our core activity budget, which is the budget that we invest to fund events and to undertake the marketing activity that is key to the sustainable growth of the visitor economy. Our interventions focus on addressing regional and seasonal imbalances across the country.

Our key measures have included looking at how we can reduce our property portfolio by co-locating and by managing asset transfer requests. We have tactics to manage our headcount, such as, where we can, not replacing people in roles, and reskilling or redeploying people.

We have faced into our budget cut by designing a strategic change programme to ensure that we can future proof the organisation and can continue fulfilling our core role of driving the visitor economy. That has meant taking decisions about activities that do not necessarily deliver, so that our resources and expertise are focused on activities that we know will make a difference. We are in the middle of that.

We want to invest in our digital-first approach, which we recognise will be key to extending our reach and impact in key markets and in our critical work to support industry. We connect businesses with new market opportunities and help them to reach new audiences, which will also be critical to driving sustainable growth.

Our core budget for industry engagement, marketing activities and funding events has really been under pressure. Without making changes, it will be difficult to achieve the sustainable growth that we are looking for and, particularly, to address some of the imbalances that we see across Scotland.

The Convener: Murdo Fraser and Colin Smyth have some questions.

Murdo Fraser (Mid Scotland and Fife) (Con): My questions follow the convener's initial ones. You have all seen quite substantial cuts in your budget for the current financial year. During our evidence sessions on the budget last year, I challenged Neil Gray, who was, at that time, the economy secretary, about that. We have seen a change in Government personnel since then, with Kate Forbes coming into that role, and I think that there has been something of a change of tone from the Government, with perhaps more focus on economic growth.

Against that backdrop, my question is about your expectations—which might be too strong a word; "ambitions" or "hopes" might be better—as you look ahead to the coming budget round. Are you optimistic that the Government's change of language will translate into a better budget settlement?

Who wants to start? You are all looking at each other.

Stuart Black: I will have a go. On your first point, about ambition, you will have seen from our written submission that we are really positive about what is happening in the Highlands and Islands at the moment, particularly on renewable energy. There is a wealth of opportunity there. Your point about the stronger emphasis that has been placed by Ms Forbes on economic growth and the Government's four priorities is correct.

09:45

As for our expectations, we are aware of the Government's significant budget challenges, so we are not unrealistic. However, additional funding streams are coming in, particularly in offshore wind, with the Government allocating £500 million of funding for development of the sector. We are confident that some of that money will come to us to help with our economic development activity in the Highlands and Islands. We have many opportunities, ranging from Shetland in the north to Argyll in the south, and from the Moray Firth across to the Hebrides.

We are therefore quite upbeat about economic opportunity, but we are a bit more realistic on the budget aspects, although, as I mentioned, there is additional funding that we think could be used to help us.

Murdo Fraser: Your submission includes numbers on the multiplier effect in public spending, which suggests that, if public money is put into an area, it will generate more economic activity there.

Stuart Black: Yes, that is correct. We have done work on that, from which we have come up with a multiplier of roughly 2.5: if we measure wealth creation over a period of 10 years, the total is 2.5 times what we put in through our investment over a three-year period. We think that there is a good story there, in that we can help to meet the Government's priorities of addressing child poverty and growing the economy. The best way of addressing child poverty is to give people high-quality work and jobs, so as to create better incomes and opportunities for young people.

Jane Morrison-Ross: We remain pragmatically positive, or positively pragmatic—I am not quite sure which way round it is. Our ambition is set. We are not going to lower it; we will just work differently to deliver on it, as Stuart Black said.

We think that a number of areas will bring real benefit. For example, the day before yesterday, the minister, Mr McKee, was at Chapelcross with us at the launch of the new ambition for it to be a green energy transition hub. The dairy nexus project will soon be launched. We have a huge amount of work progressing across the south of Scotland in hydrogen, hydrogen production and energy transition. We continue to produce 16 per cent of Scotland's renewable energy, and we work closely with HIE on such aspects. We are not going to lose track of that progress.

As I said, we have been finding different ways of delivering. A great case in point is the pathways fund project, which has allowed us to bring in and augment resources and to accelerate delivery. Around 90 per cent of our team members are front-line facing: they are out, from day to day, working with businesses and clients at all levels. In the south of Scotland we have a huge number of small and medium-sized enterprises, which we regard as entrepreneurs.

We have also been working really hard on inward investment and raising the profile of the south of Scotland, with last year's launch of our net zero investment guide and the creation of the new Invest in South of Scotland website, on which we collaborated with Scottish Development International. We have gone from having a very small number of inward investment opportunities to currently having 33 live projects that we see as appropriate opportunities for such investment.

Vicki Miller: We are a key delivery partner in the delivery of the Scotland outlook 2030 strategy, which positions Scotland as leading 21st-century tourism, and also of the strategy entitled "Scotland: The Perfect Stage". Both of those strategies are ambitious. Our ambition is to continue to support their delivery and, in particular, to continue the international growth that we have seen. Scotland has recently outperformed every other part of the United Kingdom as a result of a deliberate strategy on our part to invest in key markets. We have seen that pay off.

The challenge for us is that, this year, we have experienced an in-year cut, so we must be pragmatic about budget. The cut has meant that we will not be able to carry out certain activities during the rest of the year. That concerns me, because I do not want to see things regressing. We are up against other destinations in a very competitive landscape. We are seeing some of them—such as Ireland, which is probably our nearest competitor—putting a lot of money into their marketing.

We are being very ambitious in working with the industry and our partners to deliver on those two key strategies, while recognising that we need to face into and look at new ways to deliver, hence our digital-first approach and investing in key skills in areas of our business where we can turn up the dial and work effectively.

We have skilled people who face into markets and build relationships with them, and work with travel intermediaries, and they are key to helping us sell Scotland. There is a lot that we can do, but the budget pressure has obviously been significant for us with regard to continuing that growth trajectory.

Murdo Fraser: Thank you for that. I know that other colleagues have more specific questions for VisitScotland, but I will follow up on one point. You said that there was some activity that you had been hoping to do that you had to cut back on. Can you expand on what that is?

Vicki Miller: Yes. Over time, the 38 per cent reduction in our marketing budget since the pre-Covid period has meant that we have not been able to do consumer marketing activity in all of Scotland's priority markets. We have focused on the US and the UK, which is obviously important, and on France and Germany. Those are the four key markets that give us a regional and seasonal spread. The US is particularly important for high-value visits and longer stays. However, we have had to reduce our investment in our paid activity; the in-year reduction means that there will be no paid activity in those markets. Instead, our approach will be very much about the activity that we can do through our own channels, which are significant. We have set ourselves up with in-house expertise to be able to do a lot and get the kind of reach that we want through social media, our own website, our email marketing programme and the work that we do with our all-important travel intermediaries and the travel market, which is delivered through our people. We can still do a lot, but the reduction means that we will make limited investment in paid media activity for the rest of this year.

Murdo Fraser: I have one more question to follow up on that aspect, because it is interesting. What would the normal time lag be between

VisitScotland investing in a marketing campaign, such as the one that you are talking about, and seeing its results? Would it be in-year?

Vicki Miller: It would be in-year.

Murdo Fraser: You would therefore expect to see the impact of this reduction in the current year.

Vicki Miller: Yes—very much so. The work that we do drives immediate new incremental economic activity.

Murdo Fraser: It means that people move to book, more or less, once they have seen the adverts.

Vicki Miller: Yes, absolutely. Our focus is on that journey and the path to purchase, and on ensuring that we engage in activity at the different stages of the visitor journey.

Ultimately, however, as budgets have been squeezed, the focus has been much more on driving bookings in-year. That is critically important. We have seen a growth in international bookings, but we see a very different picture when we look at our domestic market, which is important for many rural areas in particular. In autumn and winter, we tend to see more visits from the domestic market. That has absolutely been our focus; we can see that in some of the figures for the immediate return on investment from that activity. Last year, the return was £56.7 million in incremental economic activity.

The Convener: I call Colin Smyth, to be followed by Lorna Slater.

Colin Smyth (South Scotland) (Lab): I want to follow up on that theme, turning to the enterprise agencies. What is it that you will not be able to do? You talked about having to change the way in which you work in order to deal with substantial budget reductions, but I am still not entirely clear about what you will not be doing. I suppose the best way to put it is this: if you had more money, what would you like to do that you will not be able to do next year as a direct result of the budget savings? The enterprise agencies have had very substantial reductions in capital and other areas. What will you not be able to do next year as a result of those budget reductions?

Jane Morrison-Ross: It is a good question. If we had additional budget, we would do more, more quickly. We are not deprioritising things and, as Anthony Daye has said, we are not planning not to do specific things, but we will not be able to do them as broadly, or at the same scale, or as deeply.

What we are doing is prioritising everything that comes in against the Scottish Government's national strategy for economic transformation, our regional economic strategy to create a fair, green and flourishing south of Scotland, and our six As, which are focused on advancing, accelerating, awakening, and so on. The core of what we do is based around the just transition and fair work so, as things come in, we prioritise them against all those categories.

If we had additional funding, we would look again at things that would not otherwise have made that prioritisation but, when it comes to ambition and overall areas of focus, we have not deprioritised anything. We have just changed the way that we deliver and have recruited partners to help us keep on track.

Colin Smyth: Has the balance of where your money goes changed? You published your annual report last week. About 150 businesses, I think, were involved in £9 million of direct grants. I am also conscious that, according to the report, your wage bill went up by 13 per cent. I appreciate that that is because you are a new business and are still ramping up your structures. However, the message that I often get from businesses in the south of Scotland is, "We had a really positive meeting with SOSE and got some really good advice, but there's nae revenue or no money or no grants." Will that balance of direct support through advice and grants tilt towards advice? Will the grants get progressively smaller next year as a result of those budget cuts?

Jane Morrison-Ross: I will start, then bring in my finance director. We are not "still ramping up". Two years ago, we decided to freeze our head count. When I took up post, we had a head count target of 177 and we froze it then. We have 140 people, at least 90 per cent of whom are front-line facing, as I said. The team members do not just dispense advice. They work as expert specialists—consultants, almost—directly with businesses and communities. Therefore, although we do not have the scale of revenue budget that we would have liked, we have team members who are out working with organisations—in some cases, for a year—to get them to a stage at which we can work with them to secure additional investment from us, Social Investment Scotland or other partners.

We have been working to distribute our significant capital funding and, as Anthony Daye said, we have set up a number of funds that allow us to target and distribute funding in additional ways, as well as to provide loans through the capital side of things. Over the past year, we have piloted and launched our net zero accelerator fund, our community ambition fund, our createch fund, and others, to provide additional support. In addition, there is the work of the innovation and entrepreneurship team, which has secured an additional £1.3 million of funding through the pathways project to enable us to get more people to incubate business ideas, launch them and build them in the region.

Anthony Daye: I will finalise that answer. You mentioned resources. To compensate for the situation, we have been working even harder with the Scottish National Investment Bank, for example, and private partners, through which we can leverage funding in. When we do not see an opportunity to do a feasibility study, for example, we look at our partners in the councils, or at others, to get that resource work done. That will allow us to implement some capital work. It is about working slightly differently from how we worked before.

I will add to Jane's point about using our staff even more. Whereas, before, we might have had to pay for cash flows, business plans or marketing plans, there are ever more examples of our staff helping businesses with those much more fundamentally now than in the past.

Colin Smyth: When it comes to that balance, with what proportion of your budget next year will you employ staff? As I mentioned, there has been a 13 per cent increase in the wage bill. What proportion of the budget will be your running costs, if you like, and what proportion will be direct grants from SOSE next year, compared with this year?

Anthony Daye: It will likely be pretty similar, given that, as Jane said, we will not increase our head count. The split of what we do between business and communities has been pretty similar over the years, at 80:20.

I think that we will see growth through inward investment. We have some really significant opportunities. Jane mentioned 33 live opportunities, and we are now prioritising which ones we really need to go after that would get the biggest impact and outcomes for the region.

Colin Smyth: I will pose a similar question to Stuart Black and Nick Kenton. Stuart, you mentioned a 5 per cent reduction in revenue and a 10 per cent fall in capital. Specifically, what will you not do next year that you would like do?

Stuart Black: Thank you for that question; I will give one example. Recently, the HIE board approved a fairly big capital project. Ten years ago, we would have approved some revenue support to back the organisation involved, but we cannot do that any more. Back then, we would give a grant to a body, and then possibly help with staffing for that organisation to ensure that the capital project would work. We are no longer able to do that. The revenue side has definitely been hit more than the capital side.

10:00

Another example is tourism. We fund a network of destination management organisations across the Highlands and Islands. That has previously been revenue funded, but we have had to stop doing things like that. Some of those initiatives are turning to bids and bringing in their own revenue; some are getting money from other sources, such as wind energy companies.

The revenue side has definitely been hit. I mentioned our management and leadership programmes, and our work with graduates has been reduced, so that is another example. Another factor that is affecting us is that some of our growth deals—for example, the Inverness and Highland city region deal—are getting towards 10 years old, and they have provided quite a bit of revenue support for a number of different programmes. We have a really good programme called IMPACT30, which is designed to help young entrepreneurs, and it has been funded through the growth deal. Once the growth deal money runs out, however, it will have to end. That is another example of some of the things that will be stopping.

On the capital side, we build some own-hand properties. We are in the market of building small business units. There will not be much private sector support for building small industrial units in a place such as Benbecula, for example, where we have some of that work under way. We are now able to do less of that type of thing.

On grants to businesses, we are looking at intervention rates. We are—as we should be—pushing additionality and ensuring that we are putting in the minimum that is necessary to make a project happen. We are also focusing more of our attention on the most disadvantaged geographical areas. We have lower intervention rates around Inverness and in Moray, for example, and higher intervention rates in the Hebrides and Argyll. Those are some of the things that we have been doing.

I will counter your point around advice, however. Many of the businesses and communities with which we work value the advice that they get from staff—it is not just about giving grants. Advice is fundamental to a lot of what they do, and that comes out in the feedback that we get. When people come to us, very often the first thing that they say is, "How much money can you give us?" but actually it is the advice and support that are important.

We also use organisations such as Scottish Development International very effectively for things such as advice on exports. It is not just about finance, but finance is definitely under pressure, and those are some of the things that we have previously been doing.

Colin Smyth: I absolutely take on board the point about advice. I have spoken to many businesses in my region that have benefited from advice and support from the agencies.

I have one final small point, though. I note that, in the submission from HIE, your target for the number of jobs to be supported next year is substantially less than the target for this year. Is that purely because of a major investment from a Japanese company? For the “Number of jobs supported” line, the target for next year is 600 to 700, whereas the target for this year was between 1,000 and 1,200.

Stuart Black: That partly reflects the fact that we have less budget. We are realistic about the targets that we are setting in relation to the funding that we have. The investment from Sumitomo Corporation, which is mentioned in the submission, involves 150 direct jobs. It is more a capital investment—it is around £300 million of capital; the sector is very capital intensive. However, you are correct that our targets for next year on jobs are slightly reduced from this year, which reflects our likely budget situation.

The Convener: I call Lorna Slater, to be followed by Michelle Thomson.

Lorna Slater (Lothian) (Green): I have three questions. The first two are for both enterprise agencies and the third is for HIE.

To follow on from Colin Smyth’s question—both Stuart Black and Jane Morrison-Ross have spoken on this topic—how do you measure the effectiveness of grants versus the support that you describe? In my mind, it is like the saying about teaching a man to fish versus giving a man a fish. How do you measure that?

Jane Morrison-Ross: It is an excellent question, and one on which we have been working hard. When I took up post, we had no baseline data, and I was annoying everybody by asking for specific south of Scotland data. Since then, we have, in partnership with HIE, been conducting surveys every year to gather place-specific data for both regions.

In addition, we now have a small but perfectly formed performance measurement and management team, which has been looking at how SOSE measures and looks our performance against a number of set criteria. Initially, we have introduced some of the harder performance targets and key performance indicators, because we did not previously have those in place.

The team is now working on ways of capturing and quantifying those less-tangible targets. I quite often talk about generational return on some of our investments—I am thinking, for instance, of our work in Langholm on the land buy-out there. Given that we will not see a traditional return on that investment for decades, we need to find some way of capturing and measuring that long-term generational return, the social return, the wellbeing return and the community benefit return, and we have a team working to try to capture that data and to find ways of quantifying the slightly unquantifiable. I should also say that we are working with external stakeholders, partners and clients, too, to get their input and feedback as we try to map all of that.

Did you want to add anything, Anthony?

Anthony Daye: I will just say that we have started specific work on the people part of this. It is a kind of invisible thing, as we have coined it, but it all comes back to the point that was made about what people add to this. We have already talked about that in previous answers, but we have been able to validate the amount that is added. By that, I mean the real richness of going into a company and providing advice, or, indeed, the 33 live inward investment opportunities that we have talked about. One or two of those can mean 12 or 18 months’ work.

As for showing the value of the public sector, we need to be able to show that this is not some grant that has been given; it actually provides the salary of someone who is putting a lot of work into something that might bring in, say, £18 million of investment. As Jane Morrison-Ross has said, we have worked very much on the primary measures; they are now in our accounts, and we now have a baseline, but we are now working on secondary, or more invisible, measures that will, we hope, show an even greater impact.

Stuart Black: It all comes down to evaluation evidence. Highlands and Islands Enterprise has been going for around 60 years now—including the time when it was known as the Highlands and Islands Development Board—so we have a body of work and lots of evaluation evidence on our different interventions over a long period. Often, it is quite hard to separate out whether what has been given has been a grant or advice—often, it is a mix of the two—but with every programme that we have run, and particularly when we had European programmes, there have always been mid-term and end-of-programme evaluations. Actually, that is one of the things that we are having to reduce, because of our revenue budget. We are not doing quite as much evaluation as we did in the past.

However, it all comes down to evidence and detailed research, and following things up with businesses, too. We have found that, if a company is creating jobs, that generally happens over a three-year period, so when we report on our performance figures we will take a sample and then go back and ensure that what a company said that it would do in the first period has actually happened. It is really about evaluation, and that comes from experience of running the programmes, too.

Lorna Slater: Thank you. My second question is about fair work. How has the fair work conditionality that the Scottish Government brought in affected the distribution of capital funding and other grants? Have you had to change your models? Are different companies applying? I am interested in hearing how that has gone.

Stuart Black: I was appointed chief executive in January 2022, and the first thing that I said was that we needed to become a fair work organisation in terms of what we do with businesses and communities. We implemented that approach from April 2022, and I have to say that it has been universally accepted. We get very little pushback, because most organisations and businesses understand the importance of valuing their staff.

We have had relatively limited instances of people saying that they were unable to meet that aim. The one or two examples of companies not being able to do so have arisen because the firm in question has been in difficulty and, in such cases, it would have been very harsh of us to say, "You're paying 10p below the real living wage, so we're not going to help you." It has happened in, for example, the bakery sector, and we have made an exception in certain relatively few circumstances where a company has been in difficulty. Moreover, there are some social enterprises working with very disadvantaged individuals, whose rates of pay are sometimes not right up at the level of the real living wage. Again, we have to take a view on that.

It comes back to the importance of supporting companies. We do a lot of work prior to anything happening; for example, if a company is not a fair work employer already, we have a programme to get them ready for it. If a company says to us, "We're are not paying the real living wage at the moment. What can you do about that?", we have a programme that they can go on. Indeed, that approach has worked very well in the tourism sector, which traditionally has been low paying but now, because of competition, is not. So, we have a programme for companies that are not paying the real living wage, but our experience has been universally positive with regard to the introduction of fair work conditionality.

Jane Morrison-Ross: SOSE has had fair work conditionality since its launch, so it has been core to our ethos anyway.

We have generally found it to be a very positive thing. Indeed, people expected it, because it was there. One team member, Seonaid Mann, has a specific focus on fair work.

We launched quite an unusual fair work campaign last week. It targets businesses but also reminds them that fair work is not only about the living wage but is about the employee voice and six other criteria, all of which are important. The living wage matters, but having a workforce that feels respected, listened to, engaged and that feels like part of the organisation is also absolutely critical.

We have often found challenges when manufacturing organisations and businesses of that type bring in apprentices who are not on the living wage. That can be a cultural challenge as much as a financial one. They may have people who have been in the business for longer and are being paid the living wage, which means that there is an expectation that giving apprentices the living wage will lead to a domino effect for everyone else. The plan is very much to make that happen, but it can take businesses some time to get all the parameters and margins in place to allow them to do that

As Stuart Black said, we have people who go and work with businesses to help them through that process, both culturally and financially, and to help them consider the employee voice.

Lorna Slater: My final question is for Highlands and Islands Enterprise. Thank you for the paper that you sent; the traffic light system is useful. The external green investment figures, like all the external investment figures, are staggering and you have wildly exceeded your expectations. How was that achieved? Was it a one-off situation? How are you defining green investment and how are you ensuring that that money is actually going to people and businesses in Scotland?

Stuart Black: The figures are influenced quite a lot by the Sumitomo investment that I mentioned. That company makes cables for the offshore wind sector. We have seen huge investment of around £300 million in the past year, which has influenced the figures.

We have had quite a lot of interest in general in what we are doing towards net zero. We had a green grant fund and the Government had funding for green jobs. We were able to use that money, primarily to target energy efficiency measures in business. Lots of businesses want to improve their environmental outputs and become more environmentally sustainable. Much of that is driven by concerns in the supply chain, because the bigger companies that buy from SMEs are asking what they are doing about net zero. It is a bit like fair work, in that we are introducing a programme of support to assist businesses—and communities—to do more. The figures were heavily influenced by Sumitomo.

The Convener: We turn to questions from Michelle Thomson and Brian Whittle.

Michelle Thomson (Falkirk East) (SNP): I have a few questions for Stuart Black and Jane Morrison-Ross from the enterprise agencies, and it is fine if they want to bring in their colleagues.

We have already touched on capital budgets. Earlier this year, the Scottish Fiscal Commission predicted a 20 per cent cut in the availability of Scottish Government capex over the next five years. We also know that the UK has seen low capital investment in comparison with other advanced economies.

That investment ultimately flows to you. Can you talk about how the short-term nature of capital budgets and the potential for variation within years affect your strategic and long-range planning?

Jane Morrison-Ross: That is a difficult question to answer. As Anthony Daye said, we realised about two years ago that SOSE was not going to continue on a growth budget trajectory. People may not know that SOSE was on a growth budget trajectory for the first three years, which meant that our capital, revenue and resource budgets increased. When we looked at the wider economy and financial picture, we realised that that would not be the case, so we started to plan. We have not lessened our ambition, but we have looked at different ways of delivering. It is undoubtedly true that, if we had additional budget, we could do more and could do it faster.

For large capital projects, we have built really good relationships with the Scottish NAtional Investment Bank, the UK Infrastructure Bank, the British Business Bank and private banks. We have projects that are happening now with additional public and private finance that has come in to augment what we can do. We will continue looking for ways to do that, because lateral thinking is a key strength in planning ahead.

10:15

Anthony Daye: It is really difficult when the approach is shorter term and there is fluidity in the budgets year on year. To go back to staffing, it is about getting people in to understand what can be moved about. Sometimes, clients can be flexible. That needs to be aligned with pushing them a little bit more on intervention rates and seeing whether we can get a bit more money in. With bigger inward investments, we need to look at how clients are funding those and what internal rates of return they expect, because we might be able to challenge that a wee bit. They may say, “We want this,” and we will say, “This is what we have available.”

As an accountant to trade, I know that short-term budgeting is always challenging, so it is about finding ways to prioritise what we are doing and looking at the projects that are in the pipeline. We are in our fifth full year, and we now have a really strong pipeline. That allows us to work with clients, both those that are coming in and the ones in our region, to be flexible and make sure that we get the outcomes that we need. As Jane Morrison-Ross has mentioned a couple of times, that helps us to not lessen our ambition. However, the situation is challenging, for sure.

Michelle Thomson: I know that Stuart Black has mentioned the issue, but I am interested in his views on it as well.

Stuart Black: It is difficult when we do not have certainty going forward. Even some indicative figures would be helpful because, with the money that we allocate in this financial year, the projects can take two or three financial years to come to fruition, so it is not as though we are spending all the money in the year in which we get it.

Michelle Thomson: Precisely.

Stuart Black: Therefore, the more we commit at the moment, the more there is the potential that later on we are left with very little headroom, so we always try to build in flexibility around our commitment levels. We are finding that the lack of certainty ahead is making things difficult for us, particularly around our property projects, for example. We use those as a bit of a valve. If private sector demand is low for our capital resource, we tend to do things such as build more advanced units or some infrastructure on a science park, for example. A building project takes two or three financial years, and the situation makes that difficult.

Similar to what Jane Morrison-Ross mentioned, we are looking at other third-party funding, particularly with SNIB, which I know is coming to a future committee meeting. It has been working effectively with us on a number of projects. For example, it is involved with the space sector. We have also brought the UKIB into some projects. It is a big investor in Haventus at Ardersier, which is a significant renewables investment close to Inverness.

The lack of certainty on capital creates headaches. Luckily, I have Nick Kenton and other finance people who navigate through the issue, but it is a challenge in terms of future budgets. If our budget reduces, our headroom to do third-party projects definitely reduces. The issue can also be an important factor in attracting inward investment. There is no way that we could have met the costs of the Sumitomo project from our budget, so the Scottish Government helped us with that. I can see more of that happening in the future as our budget is constrained.

Michelle Thomson: Before I move on, I have a final point on this, which is perhaps for the numbers guys. Obviously, it is very inefficient to have the variability. Do you collect data on sunk costs at all? There must be quite a lot of sunk costs when you have a projection of £X and it suddenly turns out to be £Y.

Nick Kenton (Highlands and Islands Enterprise): We take a three-year outlook to our board every year in which we set out our assumptions very clearly, and that goes to the Scottish Government. Although we do not have certainty, we have to plan forward, and we cannot rely on a one-year budget. We set out to the Government our workings, as it were, and then we work from there. I do not think that we have ever had to stop a project mid-year because of a misunderstanding, uncertainty or an estimate being wrong in our budget. We have managed so far. For anything really big, we go after specific in-year funding. The Sumitomo project, which Stuart Black mentioned, has drawn significant support from the Scottish Government. For such projects, we try to nail specific funding. With our business-as-usual funding, we try to supplement that with other income.

As Stuart Black says, because we have our own property projects, there is a bit of a release valve if we need to flex up or down in-year. We have managed so far. We have not really had any spend as a sunk cost that we have not been able to pursue to its end or conclusion.

Michelle Thomson: Jane Morrison-Ross has triggered a further question, which I will put to both enterprise agencies. We know that private capital will need to be leveraged to establish the industries and supply chains that will get us to net zero. What sense do you have, anecdotally, about the extent of private capital that can be leveraged? Traditionally, we hear that there is a lot of that available if the right projects are found, but I am interested in the personal experience of both agencies.

Jane Morrison-Ross: For us, it has been a dual journey. We were being asked questions such as, “Who are SOSE?” and “What’s the south of Scotland, when it’s at home?”, so we have been building that brand and awareness that the south of Scotland is slap bang in the middle of the UK and has excellent transport links and infrastructure, natural capital and 80 per cent of Scotland’s dairy.

In parallel, we have held a number of brokerage and round-table events over the past two years, where we have brought together interesting businesses—in traditional or emerging industries—and investors in an informal setting. A number of significant projects have come out of that, such as the wild heart project, which has Hampden & Co as a private investor. We are seeing great traction and real interest in investment, specifically in energy transition and hydrogen but also in a number of other areas.

Appropriate investment is important to us; it has to be ethical and aligned with the journey to net zero and with fair work. I think that the appetite is there. We are also lucky that there is curiosity about what is happening in the south of Scotland, so people are willing to come to the table.

Anthony Daye: I agree. Where we do not see that appetite, we try to put a challenge in. For example, I have had discussions with the British Business Bank about people not being investor ready, so to speak. There are definitely opportunities out there.

To come back to the question about staffing, it is about our staff connecting the right businesses with the funding at the right time. There are definitely opportunities, so it is just about grabbing them. One of our colleagues, Martin Valenti, is big in that area. As long as we keep that approach in mind and bring in businesses at the right time, we should be able to get things done, and we are seeing that happen.

Forest Holidays is an example of an £18 million investment, of which we put in about £4 million. That business, which has a lot of the ingredients that we want with regard to net zero and intervention rates, will soft launch this month. That is a great example of the investment that we can put in alongside private investment.

Jane Morrison-Ross: Carbon Capture Scotland is another fantastic case in point, which also picks up Stuart Black’s point about advice. Martin Valenti was working with that company when it was called Dry Ice Scotland. It then became Carbon Capture, and SOSE has supported and invested in the company. It has also now raised £125 million on the private investment market, which is a fantastic example of a company with real dedication and ambition.

Michelle Thomson: Is the crowding in of private investment flowing towards what you consider to be the right business—in relation to matters such as fair work, ethical stance and sustainability? Are you making the Scottish Government or SNIB aware that you have that scale?

Jane Morrison-Ross: In short, yes.

Stuart Black: There is a contrast between the massive amounts of capital that are coming in for the large-scale renewables projects and what is happening with SMEs.

I will start with the large-scale investments. Haventus at Ardersier, which I have mentioned as a case study, is backed by £300 million of US investment, and that is being matched by £50 million from SNIB and £50 million from UKIB. That is an example of a big American investor seeing that Scotland is a great place for the types of investment that will be important for the energy transition. In addition, SSE is investing something like £18 billion in its network expansion in the north. Massive investment is coming in.

There is also a significant number of pumped storage schemes in the Highlands and Islands. At the previous count, there were around 11, and each of those is worth £2 billion to £3 billion. I have not even touched on the massive amounts of capital that is being invested at the top end of Scotland.

It is more challenging for SMEs, which have to justify investment to normal banks. That is where schemes such as our green grant fund and the Government's green jobs fund have been useful, because they act as leverage to bring in the private sector money. We also have strong partnerships with organisations such as Zero Waste Scotland, which is helping with the transition for businesses.

Our role is to support the smaller businesses to make the transition. We have quite good examples, such as small-scale electric boat manufacturing—a company in Lewis is doing that. There are SMEs that view this as an area of potential opportunity, but their financing situation is very different from that of SSE or Haventus, for example.

Michelle Thomson: I hear that clearly, and I also recognise what you say about the banks.

My last question is to both the enterprise agencies. The recent programme for government included a commitment to

"Increase the number of women starting and scaling businesses",

and it mentions our partnership with the enterprise agencies to enable that. Will you tell us more about what is going on in that regard? This is a chance for you to evangelise.

Jane Morrison-Ross: We are hugely excited about that. I mentioned that we have an innovation and entrepreneurship team, which is headed up by Susan Harkins. Prior to joining SOSE, I had engaged with Mark Logan on the "Scottish Technology Ecosystem Review" report. At times, I was a bit of an annoyance with regard to underrepresented founders—

Michelle Thomson: You and me both.

Jane Morrison-Ross: I know. [*Laughter.*] I had done quite a lot of work previously with Wendy Lamin and Dr Poonam Malik on underrepresented founders in Scotland. Therefore, when I joined SOSE and discovered that we had a team of people with an absolute passion for tackling those underrepresented founders and underrepresented opportunities in the rural economy, I could see that there was an open door. Before the pathways programme, Susan Harkins's team had been looking at working with and supporting women entrepreneurs, young people and people who are neurodivergent, as three of the early categories—not that they will be the sole ones.

When Ana Stewart began her work with Mark Logan to look at the pathways for women in entrepreneurship, we were asked whether we would like to join the cohort. We leapt at the chance—that is probably the best way to put it. Susan Harkins has been very involved in that work, and we were really fortunate to secure the pathways pilot funding for the south of Scotland. We are in the process of creating a network of SOSE-trained coaches, so the SOSE DNA will be at their heart. It is really important for us that, culturally, they fit and that they understand the place and the challenges of the south of Scotland specifically, because it is not the same as the central belt. We have things in common with HIE, but it has been in place for a lot longer than us. That intrinsic understanding is important. We need people who have that knowledge but who also have the broader entrepreneurial mindset, and the ability to help businesses to scale up and scale deep is key.

Women entrepreneurs are a key focus of that work. A small sub-group has just been launched on neurodivergent women entrepreneurs. One of our really successful young women entrepreneurs, Rachel Parker, who has won the Scottish EDGE award, young entrepreneur of the year and so on, has talked openly about being non-neurotypical and the challenges that that has brought. We also have people with specialist skills and training in those areas. We are already seeing an incredible uptake and a hugely positive response.

After we have worked with women and young people, we will look at where we go next—we will be looking for the next pocket of underrepresented founders who have those nascent ideas so that we can create a spark to help to kindle things.

Michelle Thomson: I will ask for a last word from Stuart Black, because I know that the convener is keen to move on. With regard to your focus on encouraging women-led businesses and diversity in general, do you routinely disaggregate data? How is that split looking?

Stuart Black: Yes, we disaggregate our data, and we are very keen to see more women entrepreneurs and start-ups in our region. I mentioned our IMPACT30 programme. Of the 118 participants in 2023-24, 70 were female and 47 were male. Similarly, on our pathfinder programme, which is aimed more at life sciences, of the 44 participants, 27 were female and 17 were male. We are trying to encourage more women to come on our management and leadership training courses and, through that, to develop their businesses.

Overall, on entrepreneurship, about 30 per cent of the chief executives of the companies that we work with are female, and we are keen to increase that number. We are partnering with Women's Enterprise Scotland, because one of the issues that it faces is how to deliver in rural areas, such as the Highlands and Islands. We are keen to work with it on that.

10:30

The Convener: Would VisitScotland like to respond to Michelle Thomson's question about women in business? How is your organisation supporting the businesses that you work with?

I am also interested in how you target a female international market. Do you look at gendered aspects of tourism when thinking about people from other countries?

Vicki Miller: From a tourism perspective, the situation is very positive. Our workforce is 65 per cent female, which is fairly reflective of the industry as a whole, which is 60 per cent female. The sector is made up of many small and medium-sized enterprises, many of which are led by females.

We look at travel planning and booking behaviour. Do females take the lead in the planning and booking process? Not necessarily—there is certainly no evidence of that. We are more interested in understanding planning and booking lead times and the channels that visitors are using, so that we are present in those channels to drive the all-important conversion activity.

There is a very good gender balance in the sector.

Brian Whittle (South Scotland) (Con): When I think about SOSE and HIE, I tend to think about the opportunities that are available to Scotland in the green economy and the energy transition, because your regions are synonymous with those. What investment is required? Where are we with the development of such projects and the supply chain? Are your regions ready to accept those opportunities so that, crucially, we hit the Government's targets on the energy transition and net zero?

Jane Morrison-Ross: The short answer is yes. In the south of Scotland, part of what was needed was a culture change. We have 80 per cent of Scotland's dairy production and a significant percentage of Scotland's beef and lamb production, as well as forestry and renewable energy, and the transition that all those traditional industries are going through is incredibly exciting. There has been a move to agritech, regenerative agriculture and precision land use using geospatial data. The forestry sector is innovating continually. We need to look at that sector carefully to provide a balance, but we have good close relationships with Forestry and Land Scotland and Scottish Forestry.

We have been doing work on the circular economy and supply chains to ensure that we have all the aspects that are needed. We have also been identifying where there are gaps so that we can work with existing organisations and partners—Zero Waste Scotland is a great example—as well as with academic partners such as Scotland's Rural College and the University of Glasgow, to look at how we can close those gaps.

Later this month, we will be launching the south of Scotland as a natural capital innovation zone, and many things fit under that. That has helped us to generate real interest across all the different sectors that are involved. As you know, we were at Chapelcross yesterday. SOSE purchased land adjacent to Chapelcross in order to launch a green energy transition hub, because we can be more fleet of foot in how we make that land available, as opposed to the longer-term development opportunities at core Chapelcross.

We commissioned Biggar Economics to look at how we can balance community wealth building across the region, rather than community by community, while keeping things community owned and led. That is having a significant impact in relation to what is currently available largely from renewable energy generation, but we are also considering how that model could be developed to include other energy transition types and other areas such as forestry.

Stuart Black: We have a long list of projects, and it is positive that they are starting to develop and be implemented. In relation to major ports and harbours, it is very interesting that what was done in the 1970s is now being reborn through the green economy.

I mentioned Ardersier port, which is already investing. There is huge activity there. There is significant activity at Nigg, which is where Sumitomo is based, and it has two further expansion projects at its port facilities. Port of

Cromarty Firth at Invergordon has a huge expansion project. There is also Kishorn on the west coast. There is a range of projects across the region, but are they coming to fruition? They will once the money comes. The £500 million that I mentioned needs to start motoring and moving. There is a danger if we do not get the port infrastructure in place, because countries such are Norway and Denmark are investing in that. When it comes to our port infrastructure, we have to keep up and make sure that we overtake some of those countries.

Alongside port infrastructure, we need housing. One of the significant factors is that the increased demand for labour means that more housing is required in many areas, particularly places such as Kishorn, where Alasdair Ferguson of Ferguson Transport & Shipping and others are investing significant money in bringing that facility back to use for renewables.

That brings me on to the supply chain. We are partly meeting the needs of the supply chain by inward investment. There is not a cable manufacturer in Scotland, so we have brought a cable manufacturer to Scotland from Japan, which addresses one part of the supply chain. Gearing up local businesses is also important. I mentioned Ferguson Transport, which was traditionally a haulier moving fish feed, forest products and such things around the west coast. Now it increasingly works with the renewables transition.

A lot of our effort is focused on getting the small and medium-sized companies to make the shift into working with renewables, which is really important, and the port infrastructure is fundamental to that. If we do not have the right ports in place, there is a danger that materials could come from the continent or that everything could be made on the continent and shipped over, particularly for floating wind farms. Our having in place the port infrastructure is a significant aspect. Developing our SMEs to support the supply chain, married with inward investment, is also important.

Brian Whittle: I am interested in your submission, Stuart. You talked about your operating plan and supporting the retention of young people in the region. You talked about the provision of tech places in education, and I know that the south of Scotland has exactly the same issue in trying to hold on to a younger workforce.

We have seen quite a bit of evidence around the fact that to develop major projects, there is a need for engineering and trade. The threat is that the big companies suck up all the technology, the tradespeople and the engineers, leaving a dearth for the SME supply chain. Is that a threat? Is that a problem? Are you supporting enough tech placements? We are not short of good educational facilities in either region, are we? Are you able to support enough of that to make sure that the targets required by the Scottish Government are hit and that we do not offshore that expertise?

Stuart Black: I will go first this time. Retaining and growing a young workforce is fundamental to what we are about. Skills Development Scotland is the main funder of apprenticeships, but we work very closely with it through our regional economic partnership on the skills pipeline.

In our region, we also have the University of Highlands and Islands, which is a tertiary institution, so it does apprenticeships right up to degrees. We need more activity in this space for the reasons you mention, and because the demand for labour is so high. There are initiatives such as the Nigg Skills Academy, where people who are long-term unemployed are trained in welding and similar skills on site. That is very positive and we need more of that kind of activity.

A number of companies in our region offer significant training programmes. I recently visited Ross-shire Engineering, which is involved in the water industry. It has a very young workforce, so it is doing a lot of in-house training, as well as working with the local University of the Highlands and Islands campus.

We need to do more in that space because the demand for labour is so high, but there are some activities happening already that can be built on.

Jane Morrison-Ross: We see a very similar situation. As the committee will know, our regional economic partnership has a focus on housing infrastructure and skills, and there is work going on there. We have some companies that are doing amazing things with apprenticeships through innovative and targeted approaches. William Clark & Son is one, and Jas P Wilson is another.

However, we need more choice for young people. Some of them will go away from the region because that is what they want to do—coming from a small place, I was desperate to get away. The key is to have the jobs there for them to come back to. Developing jobs for the future has to be a fundamental part of the approach, but giving young people a choice of different pathways into those careers is critical.

We are fortunate in that our region has two very active and collaborative colleges, with which we work closely to identify where there are gaps and major opportunities—for example, in energy transition and renewable energy. The ground-source heat pump sector is a good case in point, where both colleges stepped up quickly to get training changed and rolled out. Digital skills is another example, and hydrogen is currently being looked at.

There are other academic partners in the south of Scotland, from the Heriot-Watt University campus in the Borders, where the rural robotarium—I cannot say that name; it is one of my worst ones to say—is based, to the universities that are based around the Crichton campus. It is key that we work closely with them to identify where the major opportunities are coming from so that we can get the pathways in place now, rather than simply reacting when demand hits us in a couple of years.

To pick up on one of Stuart Black's earlier points, housing is another challenge. We are currently working with a number of academic partners at the Crichton campus—and with an inward investor, which I am hugely excited about—to look at how we tackle the shortage of student housing, in particular in Dumfries. That intersects with the shortage of national health service and key worker housing, and we need to tackle that issue. At present, there are students who want to come to the region to study, and we would like them to stay once we get them into the region, but if we do not have student housing for them, they will go elsewhere.

The Convener: I call Kevin Stewart, to be followed by Gordon MacDonald.

Kevin Stewart (Aberdeen Central) (SNP): I want to take the witnesses back a little bit. Both Ms Morrison-Ross and Mr Black said that there were real difficulties with the removal of financial transactions—in other words, loan money.

You will be well aware that the Scottish Government faced a hefty 62 per cent cut to financial transactions. My question is for both of you. With regard to ensuring that there is growth, do you think that the Chancellor of the Exchequer, in her forthcoming budget, should re-introduce those financial transactions—the loan budgets—to help you guys to help us, and to help her, to achieve the economic growth that we all want? Perhaps Mr Black can start.

Stuart Black: Thank you for that question. Clearly, losing the FT budget was not ideal for us. However, Scottish Enterprise was able to retain some of its FT budget, and we have worked in partnership with SE on a number of projects where we did not have the financial transactions budget but it did. One such project was a business in Thurso; Scottish Enterprise helped us with that one.

There is no question, however, that having more FTs and a greater ability to give loans would be positive for us.

Jane Morrison-Ross: We are finding other ways of compensating for the reduction in FTs. I will bring in Anthony Daye on that.

Initially, we had struggled to spend our FTs—

Kevin Stewart: As a new organisation.

Jane Morrison-Ross: Yes, as a new organisation. In addition, post Covid, we were at a point where small and medium-sized enterprises across the south of Scotland in particular did not have the ability to take that kind of loan and that kind of risk as we emerged from the pandemic. There were also challenges arising from the energy crisis. However, we then started to see a real upturn in demand.

Anthony Daye: Yes—the challenge in the budget came at the wrong time for us, so anything additional, in any budget, would be welcome as we go forward. Last year, which was the first year, we had £1.7 million worth of loan funding. This year, in the interim, we have tried to use our capital innovatively—as colleagues have said—to address funding challenges.

We have also seen an appetite for smaller loan funds in the zero to £300,000 range, and we have managed to eke that out of what is needed in the region. There is more investor readiness in that respect for us in the south of Scotland but, of course, it aligns with our work with SE and SNIB in particular—and even with the Scottish Government, if it is needed—with regard to the bigger inward investors.

10:45

Kevin Stewart: You just hit upon the point about small-scale investment. Earlier, Mr Black said that sometimes the SMEs find it more difficult to access traditional funding from traditional banks. Do you think that, if the chancellor reinvigorated the financial transactions budget, it would give you guys the opportunity to invest in some of those SMEs that are not, as you have said, able to access such funding? If that were possible, would it bring or lever in more private money?

Ms Morrison-Ross, could you respond?

Jane Morrison-Ross: Again, the short answer is yes. Some smaller organisations often struggle to find the match funding that they need to secure private investment. As Anthony Daye has said, anything that allows us to extend those services and that opportunity to SMEs would be welcome.

Kevin Stewart: Thank you. Mr Black?

Stuart Black: My answer would be yes. The FT budget was only around £2 million; as our capital budget is about £25 million, it represented a small, though helpful, proportion.

Kevin Stewart: Thank you very much.

The Convener: I call Gordon MacDonald, to be followed by Willie Coffey.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Good morning. The enterprise agencies can relax, as all my questions are for VisitScotland. [*Laughter*.] I wanted to reassure you, Ms Miller, in case you were worried about not getting any questions.

Obviously, VisitScotland is going through a period of strategic change, and there has been a change of focus to the provision of pre-travel information and so on. You have talked about the pressure on your budget at the moment. I note that, in 2017, the number of visitor centres was reduced from 65 to 25. At the time, those centres were described as "high-impact regional hubs", but they are now closing and, by January 2026, there will be zero information centres. What impact will that have on your budget in terms of loss of retail sales, leases that you will have to give up, staff costs and the possible sale of some of your property?

Vicki Miller: The decision that we have taken is a strategic one, because the travel landscape has fundamentally changed. We have seen that happening over time; I have already referred to planning and booking journeys, with visitors planning and booking things in advance of travelling. I think that Covid accelerated that approach, and we have seen the impact of that on the role of the centres, which is not what it was. Many of you will remember the days of the "Book a bed ahead" service, which we used to offer; the centres used to offer that sort of booking service and played an important role in local orientation.

We have seen a decline in usage over a long period of time, but the important thing for us is that, if we are to drive the visitor economy and tackle some of the challenges that we face in spreading visitors across the year and across Scotland, we have to get information to people before they get here, because they are planning their visits in advance. That gives us the best opportunity to influence where they go, how long they stay and how much they spend.

We need to bear in mind the high-value visits, too. We are now in a situation in which the value of international visitors has overtaken that of UK visitors, certainly as far as overnight visits are concerned. We are talking about longer stays, too, and those people are doing all that planning in advance and are not using the services that are provided by information centres.

From a budget perspective, there is a net cost to VisitScotland in running information centres, which we have tried to manage by managing head count in the centres and trying to look at ways of generating revenue. Of course, we need to be very careful about the revenue that we generate, because we do not want to take away from other retail outlets on the high street. In many places where we are present, we have to select very carefully any retail that we sell, because we do not want to take away from private business, so it is quite challenging. The core purpose of the staff is to provide information, so all that other stuff is really in addition, and there is a net cost to VisitScotland.

The change of approach has been essential. We recognise that, if we are going to do a job of driving the visitor economy, we need to reinvest in the digital-first programme and in the advice that we give businesses to help them to trade internationally and to reach new markets and audiences, tackle the challenge of the decline in visits from the UK market and continue on a growth trajectory from an international perspective.

As I said, because of the decline in the marketing budget and the pressure on our core budget, we have had to scale back our activity in growth markets such as Canada, Australia and China and focus on the four core markets that I mentioned. Any further reduction in our budget would mean that we would be eating into even the investment that we can make in those core markets.

VisitScotland also does a job for Brand Scotland. We have talked a lot today about trade and investment, and we know that the work that we do internationally is important in helping to raise awareness of Scotland as a destination not only to visit, but to live, work, study and invest in. We should not underestimate our ability—if we are funded to do that work and have that focus—to do a bigger job for Scotland in driving that process and helping businesses to trade internationally across all sectors, not just in tourism.

Gordon MacDonald: There is no doubt that it is important to encourage people to come to the country in the first place but, in your strategic pillars, you say that you want to encourage people to

"spend more time and money across Scotland".

You also say that you have to manage overdemand, make sure that visitors are safe and manage those visitors. However, you have lost all local knowledge. You have no local presence.

Vicki Miller: Through the visitor surveys that we have undertaken, we see that visitors are turning to their friends, to social media and to local people such as the concierge and local businesses and accommodation providers. One of Scotland's strengths is that we are seen as a warm and welcoming nation. Everybody in the visitor economy, from those at the arrival point in the airport to accommodation providers and taxi drivers, plays a fantastic role in providing information and orientation to visitors.

We have fantastic examples of community information provision. A small area such as Shetland has, I think, 12 neighbourhood information points, which Shetland Islands Council has funded for a number of years. That is additional funding to communities or small businesses to provide a local orientation service. We will continue to work with our destination partners to look at such opportunities, because that kind of community provision can play an important role, as can some private partnerships. That allows us to focus our resources and expertise where we can make the biggest difference to Scotland in driving incremental economic activity.

Gordon MacDonald: Despite the pressure on your marketing budget, numbers are increasing and we now get just short of 4 million visitors a year. What is driving that?

Vicki Miller: That has been a long-term strategy. As we came out of Covid, we were successful in working with the Scottish tourism emergency response group, which was a multi-agency group that included the industry. We successfully bid for a number of funds, one of which provided significant money to put into international marketing. During Covid, we did not go silent. We continued with our "Dream now, travel later" messaging, while other parts of the UK did not. We did that through our channels, which we have invested in and which have significant reach.

Gordon MacDonald: Is that why we have seen growth that other parts of the UK have not?

Vicki Miller: Absolutely. We have had a consistent strategy, which has involved an international focus and the provision of recovery investment. There is also the investment that has gone into bringing major events to Scotland. Coming out of Covid, we have had the benefit of that.

The risk that I worry about is whether we can continue on that trajectory with depleted resources. That is why we have set up our change programme. We want to ensure that we have the right roles and the right skills, that we build our digital capability and that we are set up to work with the industry and our partners. Partnerships are important to us. If we are funded to deliver marketing activity, we can leverage funding from destinations and sector and transport partners. We have been very effective at doing that and bringing additional money into the pot that allows us to extend the reach and impact of our activity. That is particularly the case with transport partners, given that such activity is at the travel now, book now part of the journey.

We have a change programme because we believe that our expertise will be better focused and that we can deliver more for Scotland if we do what I have set out, and if we work with our partners in-destination to look at other ways that information can be provided.

Gordon MacDonald: I hear what you say about your marketing budget not being adequate, but how do you spend the money that you receive for that? How important are social media?

Vicki Miller: Social media are hugely important. We have a reach of around 166 million across a year on social media. The level of engagement is huge. We should not underestimate the power of that advocacy.

People are no longer turning only to search engines such as Google to find information; they are curating their trips on platforms such as YouTube and TikTok, so having a presence on those channels is really important, as is maximising the use of user-generated content. Fantastic content is shared with us by visitors who come to Scotland and have a fantastic experience. We have grown our capability on digital platforms and have worked closely with destinations and our sector partners around the country on that. We provide advice to them and to the industry on how to leverage their social media channels. Collectively—I refer to the collective as the industry, businesses, VisitScotland and the destinations that have websites—our online presence as Scotland is really important. VisitScotland has an important role to play in providing advice to the industry and our partners on how to maximise that.

Gordon MacDonald: How do you spend your marketing budget?

Vicki Miller: We have a marketing prioritisation model, which looks at a number of factors, including things such as direct access, the propensity of a market and economic, social and behavioural attitudes to travel. We then apportion our budget accordingly. We have invested a fair bit in people who have the skills to manage our channels, including our website, social media platforms and email marketing programme. The rest of the money is apportioned based on the scale of the market opportunity.

Gordon MacDonald: You said that you are worried about visitor numbers going forward. How do you intend to address that worry? How can you influence the situation?

Vicki Miller: As I have described, it is a case of ensuring that our people, our skills and our channels are the best that they can be, which is why we are focused on a digital-first approach and on the strategic change programme, which will ensure that we have the right roles and skills in the organisation. Partnerships are extremely important—the might of many. We are taking a data and insight led approach to ensure that we deliver an effective return on investment from the budget that we have.

Gordon MacDonald: I have one last question, which is to do with the quality assurance scheme that you have had for businesses. If my understanding is correct, that is coming to an end. Many visitors will be looking at bed and breakfast accommodation, hotels or decent restaurants, but if you guys are removing your quality assurance programme, how will they get independent advice on where to go and, more important, where not to go?

Vicki Miller: A lot of research has been done on the planning and booking journey, and we know that visitors do not understand quality assurance. They read reviews on the platforms that they use to book, such as Expedia and booking.com, and on businesses' own websites, which tell them whether an establishment has, say, four or five stars. For example, if visitors want to bring a family or to come as a couple, they will use such reviews to see what other people like them have said about that business. That is the basis on which they make their decisions. There is therefore an important role for us to play in working with people in the industry to help them to manage their online presence and make sure that they are tapping into those opportunities and managing user reviews.

11:00

Working with the industry, we undertook a survey to understand the value of quality to businesses. What came out of that research was that it was our advice rather than the grading itself that was of value. Some five-star properties do not mention online that they are graded by VisitScotland; they simply describe themselves as a "luxury hotel" or a "luxury boutique hotel". Therefore, our proposition is about how we can give more advice to more businesses.

There was shrinkage in our quality assurance scheme. Businesses were coming out of it, in recognition of the way that travel was changing. However, we recognise that we can still play an important role by reaching more businesses with our advice, which is why we have made the change that we have made. Our new digital advice hub will go live towards the end of March 2025. We are also exploring how we can work with our destination sector partners to give businesses more advice not only in person but through workshops and webinars.

We want to play to the strengths and opportunities of each destination and sector, in recognition of the fact that each is quite unique. For example, Jane Morrison-Ross spoke about the uniqueness of the south of Scotland. Its tourism strengths are in sectors such as cycling and agritourism, so we must ask how we can help businesses there to leverage the opportunities of the investment that is being put into areas such as local cycling infrastructure. We are taking a slightly different approach. Rather than simply making one-to-one contact with individual businesses, we are exploring how we can work better with our partners and ensure that there is online free and easy-to-access advice for more businesses. That is the change that we are making.

Gordon MacDonald: I know that I said that my previous question would be my final question, but this is now my final question: how will you measure whether such strategic change has been successful?

Vicki Miller: We have a measurement framework that refers to our four Ss, which are spread, spend, sustainability and satisfaction. We examine those aspects through the lenses of our staff, our visitors, the industry and communities.

For example, we want to influence visitors to spread their trips across the year and across the country, so that we can see them generate higher spend and have longer stays.

Sustainability is about working with businesses to ensure that they are developing initiatives such as climate action plans. We have an important role to play in educating visitors—for example, by encouraging them to follow the outdoor access code or watch our "Tread Lightly" campaign film. There has been a shift in the content of our messaging to visitors.

On overall visitor satisfaction, we have various research monitors in place to measure the impact of our activity, both economically and as regards the difference that we are making to the industry and to individual visitors.

Gordon MacDonald: I will leave it at that, convener.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): My questions are also for VisitScotland, so Vicki Miller might want to have a glass of water before she responds. [*Laughter*.]

I will continue with the theme of Gordon MacDonald's questions by asking you about your shift away from having information centres to making greater investment in your digital transformation strategy. Will the saving that you make on the information centres be pushed into the digital strategy to help you to enhance that?

Vicki Miller: As I have highlighted, our core budget has been declining, given wage inflation and the reduction in our grant in aid. That is the budget that we plan to invest in the digital-first approach and in marketing and event funding activity. We want to see that increase. Our approach is about shifting the emphasis, so any savings will not happen overnight. We are making changes through voluntary redundancy, redeployment and reskilling, so although we will make savings, they will be made over a period of time. Our approach will be to divert whatever we can into activities that will stimulate economic activity.

Willie Coffey: In your written submission, and a few times already this morning, you have said that it is important to get information to potential visitors early in their journey, in order to try to attract them. Your website is a crucial part of that. Recently in my constituency, we had a substantial number of visitors from Belgium, Norway and Denmark. However, the biggest hotel in my constituency—the Park hotel in Kilmarnock—does not appear on your website. Do hotel and B and B owners have to request to be on your website? Do they have to pay to feature on it?

Vicki Miller: There is no payment: it is free. Owners can make a request. As I said, we have industry engagement staff who can help businesses to navigate that. It is absolutely free and any business can be on our website. That is a choice for the business.

Willie Coffey: I am just wondering why that hotel does not feature. This morning, I did a little search on your website. This is a localised example that I want to share with members and ask you about. If you search your website for the Park hotel in Kilmarnock, you get 13,000 hits, but none of them is the actual hotel.

Vicki Miller: Right.

Willie Coffey: There is a problem with that site. I am therefore very curious about your digital strategy and how you deliver such information.

Vicki Miller: Our website is one part of our digital strategy. We are doing some research to understand where we need to take that website on the basis of the changing landscape and changing consumer behaviour. That will inform what we do with it next.

There is an important role for our website in reinforcing the idea that Scotland, rather than Ireland or any other destination, is where a person wants to holiday, and it helps them, in that early planning phase, to think about what a holiday to Scotland might look like and what they might be able to do there. Our website has never really been a booking site, nor would we want it to be, because people book through the big global channels and online travel agents. That is why our strategy is to work with the industry to ensure a presence on the key booking sites, in order to maximise opportunity.

We also run marketing activity on sites such as Expedia. We have a great partnership with Expedia. We get a phenomenal return on investment because, on such platforms, we are able to get more eyeballs looking at the Scotland product—because we interrupt their journey on that website and say, "Well, if you're looking for that type of holiday, have you considered Scotland?" and we take them to dedicated Scotland pages and can track booking activity on the back of that.

The website is one part of our digital strategy; others are email, social media and making sure that Scotland has a presence on those other digital platforms and—this is important from an international perspective—that that works with the tour operators and the travel agents who also have an online presence in the markets that they serve and sell Scotland on our behalf. We do product knowledge training with them, we help them to create Scotland itineraries, and we give them materials including video and written content on Scotland that they can share with visitors to their channels. The digital strategy is multifaceted.

Willie Coffey: Okay. One of the good features of the website is that you promote Scottish football across the country—a visitor who wants to come to Scotland to see a match can type in what they want to see. However, curiously, every item that the site displays about Scottish football matches shows a person on a snowboard up a mountain. Did you know that?

Vicki Miller: Oh. Right. [*Laughter*.] Clearly, we need to rectify that.

Willie Coffey: Every match shows a person on a snowboard. Do you not think that that might be confusing for visitors who want to come and see a game of football?

Vicki Miller: That will have been because of the team thinking how to cross-sell and saying, "You're coming to a football game but, actually, there are lots of other things you can do in Scotland."

Willie Coffey: Will you look to rectify that?

Vicki Miller: We will look at that—absolutely.

Willie Coffey: Okay. Thank you. The whole digital strategy is crucial.

Vicki Miller: It is.

Willie Coffey: I have raised some localised questions, but they are important. The website is what I would see if I was a visitor wanting to come to my part of Scotland, and I have to say that it is really not all that impressive. However, I am encouraged by what you say about your investment in the strategy to improve the digital content and make it a great experience for visitors who want to come to Scotland.

Vicki Miller: Our destination partners are important in helping us to determine how we position each part of Scotland, and we are working together on that content strategy to ensure that we get it right. That is important.

Willie Coffey: Okay. I will be checking the website in the next few weeks. [*Laughter*.]

The Convener: Before I bring in Lorna Slater, I have a question on VisitScotland's digital reach. How is the budget spent with regard to paid advertising and promotions? We need to get that kind of reach. It is not simply about people deciding to follow or look at VisitScotland's content, but about how it is promoted to people. That can be a very expensive part of the process, so I wonder what percentage of the budget goes towards it. You talked about closing the visitor information centres, which might free up some revenue for other spend, and there is a difficult settlement from the Scottish Government. How do you manage that part of the budget? Is it increasing, or is it having to be curtailed?

Vicki Miller: That is the budget that has been declining—our budget for paid media investment represents the 38 per cent decline since the pre-Covid period that I mentioned. That is because of the pressures on the core budget as a result of wage inflation and the decline in core grant in aid.

To go back to what I said earlier, we are having to be smart in how we use and target our budget. We need to ensure that our work is data led and insight led, and we have to consider which audiences have the greatest propensity to respond. We also need to ensure that we have in place the all-important strategic partnerships that we require—for example, with Expedia, which is the number 1 booking engine that is used by US visitors to the UK market. We have to make sure that we use that data in a way that will derive a return on investment. Unfortunately, that budget has had to be cut because of the pressures that we, as an organisation, are facing.

The Convener: Does VisitScotland, as an organisation, have the capacity to understand that specific area of work and what the smart ways to spend money are? Do you understand where the audience is, and how to undertake the data analysis around that? Do you do that work as an organisation, or do you employ or contract someone else to do it?

Vicki Miller: We have that ability in-house. We have an in-house insight team, and they have done a lot in the past. We still run big monitoring that gives us an overview of volume and value, and we can look at trends. However, we now also invest in data sources that can give us more of the real-time picture of what is happening.

We also use industry partnerships to understand what is going on across the country, on the ground. For example, where is the capacity? Equally, where do we have to be careful about not overpromoting? We have a lot of data and insight at our disposal, so we can look at search trends and use things such as social sentiment data. We have that capability, and we have data and insight sources in-house that help us to do the job.

The Convener: Thank you for that. I call Lorna Slater, to be followed by Michelle Thomson.

Lorna Slater: Thank you, convener—I am grateful for your allowing me to come back in.

Scotland's national parks have annual budgets of around £10 million a year. We have two of them; I am hoping that we are going to get a third. In terms of the success and the growth of the visitor economy, is that money well spent?

Vicki Miller: The national parks, and the work that they do to enhance the visitor experience on the ground, along with the profile that they give us, are important, and we work in close partnership with them. Our natural environment is the number 1 driver for visitors coming to Scotland. A key part of the story, therefore, is that we work not only with the national parks but more widely with other visitor-management partners, including NatureScot and Forestry and Land Scotland. That work has been important in ensuring that we position Scotland as a responsible and sustainable destination. It has helped us to work collectively to ensure that the work that we, and those partners, do on the ground, and the message that we take to visitors, is, "Come and enjoy, but play your part in protecting." Those strategic partnerships are all-important.

Michelle Thomson: I have a question for Vicki Miller, although Stuart Black and Jane Morrison-Ross might want to come in, as well. To what extent have you considered the opportunities and challenges that are set by artificial intelligence, particularly generative AI, linked to your marketing propositions? I would appreciate your initial thoughts on that.

11:15

Vicki Miller: That question is topical. We have our board strategy day this week and AI is on the agenda. We have some presentations for the board, including from people from Google and Expedia, who are coming to the board meeting to talk about how they use AI in their platforms and what we need to consider doing.

We have set up an AI working group. AI is built into some of the tools and platforms that we use as an organisation, which can make us very efficient in some of our work. We look forward to discussing over the next couple of days how it might drive tourism and address some of the challenges that we face and, equally, the opportunities that we have.

Michelle Thomson: Do Stuart Black and Jane Morrison-Ross have anything to add?

Stuart Black: Your question is timely, because we approved an AI policy for staff on Monday at our leadership team. Obviously, companies are also interested in how they might use AI and are looking for independent advice; that is one of the programmes that we are developing. In addition, 15 members of our team are involved in a pilot of use of Microsoft Copilot, so it is a live issue.

Jane Morrison-Ross: SSE also has an AI policy. We are trialling Copilot and a number of other tools across the organisation to help us. We have a brilliant in-house expert called Michael Gardiner, who is from a deep-tech background. He has been doing a lot of work across the south of Scotland to help small to medium-sized enterprises understand how AI can be used appropriately for their businesses as well, so it is an interesting development to watch.

Michelle Thomson: I am sure that we will hear more.

Kevin Stewart: We can see on our televisions, our iPads and the various other devices that we use that some countries have a huge marketing budget. Just over the past few days, if you watched the news you would have seen a huge effort by Turkey, Kazakhstan—which features very highly on international stations at the moment—and Saudi Arabia. Obviously they have megabucks behind them that VisitScotland does not have.

You talked earlier, Ms Miller, about activity that will make a difference—you mentioned YouTube and TikTok. There are also lots of adverts in online computer gaming, particularly the so-called free gaming, which is normally aimed at—it is naughty but I will say it anyway—an older audience. Are we doing that kind of thing? How do we ensure that such activity makes a difference because it seeks folk with a connection to Scotland, or who feel that they have a connection to Scotland?

Vicki Miller: We work closely with a digital media agency that has expertise in that field, so when we buy digital media, we look at online behaviours and interest data. Therefore, it is very specific for us. We are looking for people who have an interest in taking a holiday, so it is in the front of their minds now and we can see from their behaviour online that that is what they are looking at. Therefore, we can very much target people who are in the market for travel.

From a brand-safety perspective, we are also careful about the kinds of websites and platforms that we would not want our brand to be promoted on. We build into any brief that we produce the important lifestyle and travel interests that will give us the greatest return on our investment. We have learned to do that over time.

We get very good performance data from that kind of digital media activity, so we know who our audiences are. We can build up a picture from people who come to our website so that we can look for more of certain types of people. We call that lookalike data. We can be very sophisticated with our digital marketing and targeting.

Kevin Stewart: When you receive data from companies, you have to trust those companies, without a doubt. In relation to the younger market—people who use TikTok and YouTube—how do you get a sense of whether what you are doing is working in bringing young people to Scotland? Is the data trustworthy?

Vicki Miller: We have partnerships with those platforms, so we can see the growth and engagement on those channels and measure the reach. We have in-house tools that allow us to do social listening on those platforms, which tells us about sentiments towards Scotland and what people are talking about. We can also be topical—if something is trending on those platforms, we can create content around it, which increases visibility of our content. Our partnerships allow us to get data back, and we have in-house experts who can analyse all the information.

Kevin Stewart: Could you provide the committee with some examples of that reach and of the bang for the buck, which we are all interested in? We should, of course, protect commercial confidentiality, but I would be really interested in finding out the reach and the bang for the buck.

Vicki Miller: In the committee's briefing pack, we cover the return on investment from our work with Expedia—I am trying to find the figures in my own pack. For every pound that we invest, £77 comes back into the Scottish economy. That comes from a campaign that we ran recently with Expedia.

Kevin Stewart: Okay. We can see the Expedia stuff, but it would be really interesting to get information on the TikToks of the world. Thank you.

The Convener: All three of your organisations are involved in delivering the national strategy for economic transformation. We are expecting a refresh of that strategy. How relevant do you feel the strategy is to your organisations? What are you looking for from the refresh?

Jane Morrison-Ross: I currently chair an NSET sub-group called the entrepreneurial people and culture advisory group. That is a key issue for us. We are looking for NSET to evolve as times change and as the economic landscape changes. We would all welcome additional focus on investment, entrepreneurship and innovation, which I think we will get, and a specific focus on deliverables under those banners. We certainly see that on the entrepreneurship side of things, and I think that that will continue in the other areas.

With any national strategy or initiative, our main ask is always that, as well as having the opportunity to support and contribute to development of the national approach, we are able to target it and focus on the regional level. There should always be something useful and beneficial for the regions underneath the national approach. There has been a strong regional focus with NSET, and I would like that to continue.

Stuart Black: With any strategy, the most important thing is delivery, so NSET needs to focus whole-heartedly on delivering the economic transformation that the country needs. That is my first point.

My second point is about the regional dimension, and it echoes what Jane Morrison-Ross said. Recently, Graeme Roy wrote a very interesting article in which he talked about the need to let Scotland's regions flourish. I completely agree with that: it is what HIE has been doing for the past decade.

My third point is about opportunities. At the moment, there are huge opportunities in Scotland in renewables, in sectors including space and in traditional sectors such as tourism and food and drink, so we need to grasp those opportunities.

I want to emphasise those three points.

The Convener: We are carrying out budget scrutiny today, and the economy portfolio's budgets are pretty small—your organisations' budgets are pretty small—in the context of the whole Scottish budget. Are those budgets appropriate, given the level of economic investment? You have talked about partnering with other agencies, so it might be that it is an area of great importance that, all the same, does not need a significant level of investment. Do you feel that, if we are serious about growing the economy, NSET should give an opportunity to prioritise this area and ensure that it gets more Government focus and, possibly, more resources?

Stuart Black: I would certainly argue that more resources should be focused on growing the economy. Currently, the Scottish Government's economic development budget is 1 per cent of the overall budget. That is what we are talking about in relation to the strategy.

As public agencies, we have to be as effective as we can be, and we have to make efficiencies and look at what we are doing. Our figures show that you get two and a half times the amount returned for every pound that you invest in HIE, which I consider to be good value.

The Convener: Thank you.

Jane—do you want to come in on that point?

Jane Morrison-Ross: I will briefly, if that is okay. I just want to build on Stuart Black's point.

I think, sometimes, that I sound like a broken record, but investing in rural economies is really critical. In many ways, they are the last great untapped resource. When we look at where we need to be going in the journey to net zero—in the just transition, renewable energy, hydrogen, food security, agriculture, regenerative agriculture, a more localised circular economy approach to forestry and things like that—we see that we are talking about the rural economies; that is, the Highlands and Islands and the south of Scotland. We have the opportunity to target that investment in a way that will grow those economies very significantly, alongside the work that is going into the central belt. If we do not do that, we will be missing an opportunity to create rural economic powerhouses.

The Convener: Do you think that NSET has not had that focus so far? Should a refreshed NSET have a greater focus on place and on the potential in rural economies?

Jane Morrison-Ross: There is an opportunity to ensure that NSET's continued direction of travel allows for regional targeting and focus, and that it builds some additional future investment into some of those key and critical areas.

The Convener: Thank you.

Finally, Vicky, can you say something about NSET's relevance to your organisation and what you are looking for in a refreshed NSET?

Vicki Miller: Just to continue the place-based theme, I would say, from a tourism perspective, that we welcome that focus because it allows us to work very closely with regional economic partnerships and destination partners on developing a local tourism strategy and ensuring that tourism is reflected in regional economic strategies. It also means that we can tailor our advice and support to the needs of regional economies, which means that we can be more effective in our work with our local partners.

I therefore really welcome that approach and that focus, and we are set up to do that work with regional teams. In fact, our director of industry and events, Rob Dickson, works very closely with the regional partners and regional economic partnerships.

The Convener: I think that part of the Government's refresh of NSET is a refocusing on key priority sectors. Do you feel that tourism will be maintained as a priority sector?

Vicki Miller: It is certainly a key growth sector; indeed, it is up there as number 2 of Scotland's key growth sectors. Again, some data in our submission highlights growth in businesses in our sector and growth in employment in tourism.

The tourism sector is fundamental. It is the lifeblood of many communities and local economies, so I think that maintaining it as a priority absolutely makes sense. We have seen the difference that we can make to Scotland's economy through growth in the number of international visitors, in their length of stay and in the value of their spend, and we have seen the difference that that makes to local communities. We argue, therefore, that it is absolutely a force for good. It should be maintained as a growth sector and that needs to be reflected in investment.

The Convener: I am sorry, but I have a final question that I suppose goes back to Lorna Slater's question about the fair work agenda. Traditionally, tourism is seen as a sector that has more casual employment than other sectors, that is perhaps not as secure as others and which does not have salaries that are as good as the salaries in others, although somebody mentioned how competition has perhaps driven salaries up, to some extent. Housing has been mentioned, too. What are the barriers? The issue is not just investment in the tourism sector. How important is it for the Government to recognise the other barriers and what is holding tourism back?

Vicki Miller: Stuart Black already referred to housing and staff shortages as particular challenges for businesses, and to the cost of doing business and the ability to reinvest. Clearly those things are barriers to growth, but we are still seeing investment and the sort of real innovation in the sector that we saw through Covid. There has been a perception that the work is lower paid, but I think that we have seen a shift in the industry, and we have a real opportunity, with the work that we do regionally as well as with partners such as Skills Development Scotland, to raise the profile of tourism as a career. It covers such a wide range of careers, with career paths that are quite inclusive and offer opportunities for all. We have a real opportunity to raise its profile.

The Convener: I thank all the witnesses this morning for their time. That brings us to the end of the evidence session.

11:30

Meeting continued in private until 11:59.

Official Report
Room T2.20
Scottish Parliament
Edinburgh
EH99 1SP

Email: official.report@parliament.scot
Telephone: 0131 348 5447
Fax: 0131 348 5423

The deadline for corrections to this edition is:

Monday 14 October 2024

Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

The Scottish Parliament
Pàrlamaid na h-Alba