



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy and Fair Work Committee

Wednesday 15 September 2021

Session 6



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ECONOMY AND FAIR WORK COMMITTEE
4th Meeting 2021, Session 6

CONVENER

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

DEPUTY CONVENER

*Colin Beattie (Midlothian North and Musselburgh) (SNP)

COMMITTEE MEMBERS

*Alexander Burnett (Aberdeenshire West) (Con)
*Maggie Chapman (North East Scotland) (Green)
*Jamie Halcro Johnston (Highlands and Islands) (Con)
*Fiona Hyslop (Linlithgow) (SNP)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Colin Smyth (South Scotland) (Lab)
*Michelle Thomson (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Carroll Buxton (Highlands and Islands Enterprise)
Douglas Colquhoun (Scottish Enterprise)
Anthony Daye (South of Scotland Enterprise)
Adrian Gillespie (Scottish Enterprise)
Nick Kenton (Highlands and Islands Enterprise)
Jane Morrison-Ross (South of Scotland Enterprise)
Malcolm Roughead (VisitScotland)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament
Economy and Fair Work
Committee

Wednesday 15 September 2021

[The Convener opened the meeting at 10:00]

Interests

The Convener (Claire Baker): Good morning, and welcome to the fourth meeting in 2021 of the Economy and Fair Work Committee. I am pleased to welcome Maggie Chapman who has now joined the committee as a full member, replacing Lorna Slater. I look forward to working with Ms Chapman.

The first item of business is for me to invite Maggie to declare any interests that are relevant to the committee.

Maggie Chapman (North East Scotland) (Green): I have no relevant financial interests, but I refer members to my entry in the register of member's interests. I am a member of Unite the Union.

Decision on Taking Business in
Private

10:01

The Convener: Our next item is to agree to take items 5 and 6 in private. Are members content with that?

Members *indicated agreement.*

Economic Recovery

10:01

The Convener: Our main public item of business this morning is an evidence session on support for economic recovery. I thank our first panel of witnesses for joining us today, and I welcome Adrian Gillespie, chief executive, and Douglas Colquhoun, chief financial officer, from Scottish Enterprise; and Malcolm Roughead, chief executive of VisitScotland. Today's evidence session will enable the committee to consider what policies are needed to promote economic recovery. It will also help to inform our pre-budget input to the Scottish Government for the 2022-23 budget.

Obviously, we have come through an extremely difficult time with the pandemic and your organisations have been vital in providing support for businesses across our economy, particularly within tourism. A fortnight ago, we heard from the Federation of Small Businesses and Scottish Chambers of Commerce, who commented that they felt that Scottish Enterprise was not visible enough, and that the system was still too complex and prone to duplication.

It has been a challenging year, and I appreciate that decisions have been made quickly, with funds often having to be put out quickly, but the sector expressed some concerns that the way in which they interact with Scottish Enterprise could be improved. Have you learned any lessons during that process? I put that question to Douglas Colquhoun.

Douglas Colquhoun (Scottish Enterprise): Yes, there are always lessons to be learned in a situation like that which we faced last year, but the criticism is a little bit unfair. Last year, we delivered record levels of support to businesses, investing £506 million in Scotland's economy. We pivoted very quickly to deploying staff to support businesses that were affected by Covid. We put out £220 million of emergency Covid grants, which provided a critical lifeline to approximately 4,000 businesses and helped to safeguard more than 70,000 jobs.

On top of that, we continued to deliver what we call our "business as usual" activities in economic development. It was a fairly extraordinary year for our performance. I have 34 years of experience with Scottish Enterprise, and I will look back on last year as perhaps the most extraordinary year of delivery that we have experienced, especially considering that our staff were working remotely.

That takes me on to the point about visibility. Because of Covid, the more traditional methods and opportunities for networking have decreased

during the past 18 months or so. However, a lot of colleagues were involved with various industry groups right across the spectrum, either by helping to develop some of our responses to Covid, or, indeed, just keeping people informed. We had people representing us and dealing with international policy on the committee of Scottish Council for Development and Industry.

We had frequent Covid-19 business update calls, which were facilitated by the Scottish Government but attended by SE, the Federation of Small Businesses, SCDI, Scottish Food and Drink, and so on, almost daily before moving to weekly and then fortnightly as things moved on. There was a long, although slightly different, period of engagement with industry bodies and industries and sectors across Scotland.

The Convener: Audit Scotland published a report this morning. I appreciate you have possibly not had a chance to be made aware of it, but Stephen Boyle was on the radio talking about the amount of funds that were put out during the Covid pandemic. I recognise that there was a need to deliver funds at pace, but Stephen Boyle raised some issues around transparency. I ask Malcolm Roughead and Adrian Gillespie, if Adrian Gillespie is still on the call, how challenging was it to administer the funds? Are you confident that a robust decision-making process had been put in place, and is there enough transparency about how funds were delivered?

Malcolm Roughead (VisitScotland): I think that we benefited from coming late to the process for delivery of the funds. Certainly from our perspective, because the process was bespoke for the tourism sector, it allowed us to work closely with the various industry representative bodies. Although it might have taken a little bit of time at the front end, getting the money through the system and making sure that the applicants were aware of what they had to do meant fewer rejections and fewer appeals, which actually sped the whole process up. We have also been on every single fund, and our internal audit people were looking at it, taking on board all the lessons learned, and then feeding those into the next delivery of any of the funds in an iterative process.

The Convener: Adrian Gillespie is back online. I will give him a chance to contribute as he has managed to join the meeting. I understand that he had connectivity issues.

Adrian Gillespie (Scottish Enterprise): Good morning.

The Convener: The question was about Audit Scotland's comments this morning about transparency within the delivery of Covid funding, and I am asking whether you are confident that there was enough robust scrutiny of and

transparency in the process. I appreciate that funds had to be distributed at pace, but do you have confidence in the systems that were put in place?

Adrian Gillespie: I thank you, and I offer my apologies for missing the beginning of the meeting. I met the convener of our audit committee and he told me about the scrutiny that the various funds received. Our internal audit team was satisfied with the robustness of the whole process, which was pleasing to hear given the pace at which everybody had to move and some of the uncertainty that we were dealing with. On that basis, I am reassured that the process was as robust as possible in the circumstances.

The Convener: Can you briefly respond to the comments we had from the FSB and Scottish Chambers of Commerce, who raised concerns about continuing complexity around the funding issues.

Adrian Gillespie: Yes; I caught the beginning of that just before I lost connectivity. Obviously I was disappointed to read that. I am new in post and will be engaging very broadly, including with those who submitted evidence to you.

Given the amount of activity that it put out during difficult circumstances, as you will see in its submission, it is slightly unfair to talk about Scottish Enterprise not being out there. We were extremely connected with the sectors and business organisations with whom we co-created a lot of those funds. However, we can always do better.

I also think that companies often do not realise that they are interacting with Scottish Enterprise. The Find Business Support website that Scottish Enterprise operates was taking tens of thousands of phone calls and dealing with 40,000 enquiries to the website every month. The service is not Scottish Enterprise branded, but Scottish Enterprise people man it. In fact, around 70 additional staff were brought into that service during the crisis.

Companies often do not appreciate that they are speaking to Scottish Enterprise. We are trying to make sure that it does not matter who you come in to; it is about the support that we help companies to find, and the fact that we can help companies to access support from a broad range of partners. However, as I said, I think it might not always be clear that Scottish Enterprise is the agency that you are speaking to.

The Convener: Thank you. I will now hand over to Jamie Halcro Johnston.

Jamie Halcro Johnston (Highlands and Islands) (Con): We have heard today that Scottish Enterprise continues to deliver growth,

but throughout the pandemic there has been a focus on supporting existing businesses through extremely difficult times. I will go to Adrian Gillespie first and then on to Malcolm Roughead to get an idea of how that focus might have impacted on long-term growth as it has turned away from new businesses and, over the next few years, how you will balance supporting existing businesses that are still struggling or still need that support. How will you look to develop and support new businesses and entrepreneurship?

Adrian Gillespie: We will have to do that as a team with the other agencies by being very close to companies, and by being agile through the whole process.

Some parts of the economy are clearly still dealing with Covid, and there are some challenges there, particularly in tourism and hospitality. Malcolm Roughead might come back to that. We are still supporting companies in sectors such as aerospace through it, and at the same time we are helping companies to find markets and negotiate international markets that are uncertain, either because of post-Brexit changes or Covid conditions in a particular country.

We have to be nimble and agile in how we deliver that support, but we can often deliver support to deal with some of the problems arising from Covid at the same time as looking for new markets and growth. As we set out in our submission, the seven national opportunities provide good focus and opportunity around growth in the future, while still helping companies and industries with skill shortages and finance. That can sometimes be about dealing with coming out of Covid conditions and facing quite high growth, and the financial challenges that can go along with that.

So, the short answer is that we are going to have to be very agile in how we deliver that support, particularly through what are still uncertain times, but we have a strong focus on future opportunities at the same time.

Malcolm Roughead: We are in a hybrid situation in which some businesses have been unable to trade at all, some have had limited trading, and, happily, some are seeing green shoots of recovery. They all need different types of on-going support and there are certainly a number of challenges with that. Adrian Gillespie alluded to things like labour shortages right across the board that we are going to have to collectively look at and plan for, not just in the immediate future, but also for the medium and long-term future. Those have been underlying issues. In the cities, footfall is increasing but spend is still well down on pre-Covid levels, so we need to look at how we can attract people into the cities and help businesses to survive. Obviously there is uncertainty around

what will happen post-furlough and what the impact of that will be, as well as what will happen once loan repayments come in again.

10:15

VisitScotland has been taking the time to help people to increase and enhance their digital capability, which means that their digital competitiveness is greater. We have been working with digital boost on the £25 million programme, and we continue to look at online bookable products. We are therefore supporting businesses to become more responsible once we get through this period.

We can share the research and insights that we conduct with businesses on an on-going basis to determine where sentiment is strong towards visiting Scotland. However, we are also looking at where some of the issues are in those markets, because we must remember that there has been no international inbound business whatsoever for more than 18 months. Each individual market has its own circumstances, so, again, it is about keeping people informed about opportunities around our co-markets such as Germany, France, North America, and so on.

Collaboration and partnership between all the agencies and the industry has been exemplary, and we are working through all this together, through the Scottish tourism emergency response group and also the event industry advisory group, which was set up and delivered to deal with a number of previous issues. We are getting to a point at which I think we will be able to start the recovery phase in the next few months.

Jamie Halcro Johnston: You said that the agencies have had to do things differently. How much are you having to focus on supporting businesses to do things differently to the way in which they might have done before the pandemic? We have heard a lot about businesses needing to go online and how it has been a fundamental issue that a lot of businesses did not have a strong enough online offering although I appreciate that there might be differences between the general business side and the tourism sector side. How are you supporting businesses within your sector to do things differently, and how important is that going to be in the future?

Malcolm Roughead: You are absolutely right; the industry has been behind the curve in terms of digital capability and competitiveness but, over the past 18 months, we have had to progress, to learn, and to become more adept at using digital media.

We have seen remarkable growth in the number of businesses that are now bookable online. Growth had been in single digits for a number of

years, but over the past 18 months we have seen a rise of about 15 percentage points. That is good, and people see the benefit of that. We are now taking away some of the hesitation about getting into that particular arena.

We are also seeing diversification. Business-to-business businesses have suddenly become business to consumer by selling direct online; that has been helpful. We have also been able to identify different channels. We have been helping businesses to look at how their own websites are competitive, the type of content that they have, and how capable their search engine optimisation is. We have been taking the time to get them to a state of preparedness for when they are able to convert the interest that is undoubtedly out there into actual bookings. Again, that is all down to circumstance and whatever is happening not just in the UK and Scotland but also in international markets.

The Convener: Thank you. We need to make some progress so I am going to hand over to Michelle Thomson for the next questions.

Michelle Thomson (Falkirk East) (SNP): First, I will take us back a bit and explore budget positions. You have submitted written information, so I want to keep this snappy. I am interested in getting a brief summary of what both organisations believe their current budget positions to be. It might be more appropriate for Douglas Colquhoun to comment on behalf of Scottish Enterprise. You will be looking at next year in the light of a very uncertain trading environment for everybody. I am particularly interested in the forward-looking aspect, the mitigations that you are anticipating and your confidence in them, given the uncertainty about Scottish Government funding.

Douglas Colquhoun: On the current year position, as we set out in our submission, we established a business plan budget of just over £404 million. The figure increased marginally to about £409 million once the Scottish Government had confirmed the final budget for the energy investment fund.

As we noted in our submission, we identified the income anticipated from financial transactions funded from loan repayments to be about £20 million. That is a result of two organisations that were, in effect, looking to financially restructure and therefore delay their loan repayments. One of those organisations was in a much more positive position. We had made an investment in the company, which has gone on to make an initial public offering and has become listed; we hope that that will result in a substantial lift in the value of our investment. However, overall, the repayment delay means that the figure of £409 million has gone down to about £389 million at the moment.

Against that, our expenditure forecast is holding up very strongly. We have about £386 million of activity forecast and about 80 per cent of that planned expenditure is legally committed to.

At the beginning of the year, when we set the budget, we made provision for two large inward investments. One of those is tied to the high speed 2 development and, unfortunately, it is no longer progressing this year. That has released some money back into the capital budget. We have reallocated that budget, and some very small slippage across the wider capital budget, to our growth investments team, which deals with early-stage investment activity. Effectively, we have maintained its ability to support the Scottish early-stage growth market.

We had a very pleasant experience towards the tail end of last year. We had anticipated that a lot of our income generation would fall away because of the impact of the pandemic. However, in some isolated cases, we have had significant returns from equity investments that we held, and we anticipate that that will happen in the second half of this financial year, too, which will generate additional income and perhaps reinstate the budget back up closer to £409 million.

Michelle Thomson: Okay. You have given a lot of very clear data—thank you for that. I want to establish what your confidence level is for your future projections in the light of an uncertain settlement. How confident are you that you have got all your bases covered?

Douglas Colquhoun: In terms of next year—2022-23—we received a five-year capital budget allocation for last year and this year. That has reset our capital budget at £80 million next year, which includes £10 million for the green jobs fund. It is a £7 million increase on the current financial year.

As you have noted, we have got the uncertainty of the comprehensive spending review relating to resource budgets and we will not know the outcome of that until later in the year. However, obviously, we are making representations to Scottish Government about our requirements in terms of some of the national programmes, the recovery and the growth plans that we have for next year.

We have continuing uncertainty about the financial transactions budget, and we are working very closely with the Government to get a better understanding of what the amount will be. At the moment, we have a confirmed figure for capital, we are working on the basis of a flat-line settlement in terms of the resource element—that will be about £135 million—and we are working on the basis of about £21.5 million for financial

transactions, which we will augment by recycling income of about £5.5 million.

As part of our growth investment portfolio—our equity portfolio—we now have quite a substantial listed shares portfolio of companies that have moved through the various parts of the growth cycle and reached the point at which they are now publicly traded. We will wait to see the outcome of the spending review, and then we will need to use that income to make up financial transactions funding or to deal with wider issues of funding. I hope that that answers your question.

Michelle Thomson: Yes, it does—thank you.

I appreciate that Malcolm Roughead, given his role, might want to take it up a level. Please give me a sense of your current budget position, your future projections and your confidence level.

Malcolm Roughead: We look at quarterly reforecasts based on the intelligence that we are getting from the market. Obviously, our case is slightly different from Scottish Enterprise—we do not have equities. For us, the risk is where can we operate and where can we generate the maximum value. That means that, to use Adrian Gillespie's word, we have to be “agile” in how we deploy our resources, and that is why we reforecast quarterly and make decisions that are all evidence based.

Our budget was increased from £41 million to almost £132 million, which is to help with delivery of the £80 million funding package that was announced last December. We will also be delivering, to progress the Scottish tourism recovery task force recommendations, a fair proportion of the £25 million that has been allocated for recovery. That work is under way—in some cases, it is being implemented as we speak.

Going forward, it is very difficult. It is probably a bit easier for us to be fleet of foot in terms of where we shift our resources and our emphasis, but, equally, the situation is as uncertain as it can be until we get a bit more clarity, particularly on the international front, because that will generate not just revenue but seasonality and geographic spread, which are important to us.

Michelle Thomson: I appreciate that it is very complex for you.

I am conscious of time, so I will move on. My next questions are for both organisations, although I suggest that Adrian Gillespie might want to come in for Scottish Enterprise. We had quite alarming stats presented to us from Women's Enterprise Scotland, and I have a couple of questions off the back of that. The first one is incidental and a result of my also sitting on the Finance and Public Administration Committee. I was quite shocked to hear that only 1 per cent of private equity investment goes on women-led businesses,

meaning that, obviously, 99 per cent goes on male-led businesses.

Adrian Gillespie and Malcolm Roughead, do you routinely disaggregate your data by gender, and do you therefore interrogate that data to map out what your territory looks like in business support or business investment?

On the back of that, we have had commentary that the ability of women-owned businesses to access enterprise agency support has been harder because they tend to operate in areas—the beauty sector, for example—that are not necessarily the focus for growth. I would like a bit of commentary on that.

Do you routinely disaggregate data? If so, do you then interrogate it? Adrian Gillespie, perhaps you would like to go first.

10:30

Adrian Gillespie: Yes, we monitor that closely. Carolyn Currie has sent me the data that you saw and we will engage closely with her.

You are absolutely right—more needs to be done. In terms of the funding that we are involved in, around 24 per cent of the companies involved in our high-growth spin-out programme, our high-growth ventures and the support for fast-growing companies are female led. That is not enough, but the numbers are growing.

We have several initiatives, for example, the principally women programme, where we work alongside other organisations supporting the leadership development of women into business. We have six cohorts now supporting 87 women. We also have Unlocking Ambition, which is an entrepreneurship development programme. That has supported 107 entrepreneurs, half of whom are women.

We are making progress, but there is much more to be done. To answer your question, yes, we monitor the situation.

Michelle Thomson: Thank you. Malcolm Roughead, would you like to come in at this point?

Malcolm Roughead: It is slightly difficult for us because there is no compulsory registration of businesses. If you think about the make up of the tourism industry with its bed and breakfasts all the way through to self-caterers, it can be very difficult to get a handle on who the actual owner is, or who the claimed owner is. For us, it is very much about working around careers in the industry, and we work very closely with Women in Tourism, for example. However, we do not invest in businesses in the way that the enterprise companies do, so that is not an area that we have addressed, but we can have a look at any data that we have.

The Convener: Thank you, Michelle. We will now move to Colin Beattie. I remind members that we have a busy agenda this morning, so it would be helpful if questions and answers could be succinct.

Colin Beattie (Midlothian North and Musselburgh) (SNP): There are a couple of areas in which I would like to ask questions. The first question is for Malcolm Roughead. Can you provide an update as to where we are on phase 1 and phase 2 of the tourism recovery plan? Will the expected funding for phase 2 be in the scale that you would hope for?

Malcolm Roughead: I will take the second part of that question first. Phase 2 proposals have been submitted to the Scottish Government, so we await the response to that.

Phase 1 is well under way. As I mentioned, there is an international marketing dimension, and the Scotland is calling campaign is focused on the key markets. The UK and Scotland-focused activity has been under way for quite some time.

On data, one of the projects is a data observatory, which is based loosely on a Portuguese model. That is more about forecasting and looking at demand and matching that with supply. The current issue that we have with data is that it is historical—it is usually out of date and of little value, apart from possibly identifying historical trends. There is a dearth of data and we need that for future planning and future proofing.

On the other activities that are on-going, the Skills Development Scotland, Hospitality Industry Trust Scotland and Scottish Tourism Alliance recruitment campaign for the industry has come to a close and the results of that—the number of applicants, the number of hits on the website, the number of jobs posted, and so on—will be made known shortly. I am more than happy to provide the committee with that data as soon as it is available to us.

Colin Beattie: How are you monitoring the success or failure of the different elements of phase 1?

Malcolm Roughead: As I said, on participation and conversion, we are able to evidence a lot of the activity that we run in terms of referrals into businesses and where businesses book directly through, for example, an intermediary such as Expedia, and those intermediaries share the data, too. We are able to get a return on that investment and make sure that we are able to maximise the return that we want to generate.

Colin Beattie: When do you expect to—

The Convener: Sorry, Mr Beattie. Colin Smyth, did you want to come in on tourism, before Colin Beattie continues?

Colin Smyth (South Scotland) (Lab): I have a follow-up question to Colin Beattie's question, which is for Malcolm Roughead.

The summer was obviously incredibly busy with staycations—for obvious reasons, a lot of people who would normally have gone abroad did not and stayed in Scotland. As a result, prices were quite high.

What did VisitScotland do, and, more important, what will the organisation do differently, to promote areas that are not the most obvious destinations for mainly historical reasons rather than because they do not have a lot to offer? There are parts of Scotland that, if we are being honest, do not need a lot of promotion, but other areas are still very much untapped. The interest in staycations gives us an opportunity to really promote those areas, boost visitor numbers and make a big contribution to inclusive growth. I am sure that Malcolm Roughead will know the areas that I am talking about in the south of Scotland, where there is real potential that we have a chance to dig into.

Malcolm Roughead: You are absolutely right. We are working with the various destination management companies across the whole of the country, including the South of Scotland Destination Alliance in the south. We have been supporting them to get through this period, and to look at their own capability. I have already mentioned helping them with content and looking at search-engine optimisation.

We have regional takeovers where we will feature an area. Just recently, Aberdeenshire has been the focus. All our social channels, which are quite extensive in terms of global reach, feature that particular region, and we highlight key things to see and do. We also encourage people to post their availability and opening times. Right now, there is uncertainty and people do not want to travel to places if they do not know whether a place will be open, or whether there are things for them to do. Some fairly basic measures like that need to be put in place.

We have also been looking at the destination management company fund, which looks at inbound tourism. We are working with destination management organisations and tour operators to make sure that they can reach the different markets but in a responsible way. That covers looking at itineraries that get people around the country rather than just around one place, so that they can get out and explore what there is to see and do in the region.

There is quite a lot of on-going work, and as I said at the beginning, the collaboration across the industry and between the various partners has never been closer or more productive.

The Convener: Thank you. I return to Colin Beattie, who has a further question.

Colin Beattie: Malcolm Roughead, can you give me a flavour of the extent to which you are moving back to being a marketing organisation as opposed to being a funding delivery organisation, which was inevitable during the pandemic?

Malcolm Roughead: We have never stopped being a marketing organisation. However, during the pandemic, we were trying to keep Scotland top of mind, as opposed to focusing on the conversion aspect. The message to people was very much to visit Scotland when they can and when circumstances allow. Obviously, we dialled down the level of expenditure, so that we could put monies into supporting industry.

We were in a slightly fortunate position in that a couple of our business units, such as the quality assurance team and the information centres, could not operate, so we were able to redeploy them into business support. The pandemic has not impacted on what we were able to do, but it has impacted on the amount that we do and on our message. Clearly, our events side, through our events directorate and, in particular, EventScotland, was hard hit because events just could not take place. A lot of our work in that area was helping the supply chain through the Scottish Government funding that was granted to us.

Colin Beattie: I have a brief question for Adrian Gillespie on the criticism that there has been about the levels of contact and interface that the enterprise boards have had with the various trade organisations, including the FSB and others. Do you recognise that criticism? There is a feeling that during the pandemic, in particular, the contact was very poor.

The Convener: We have lost connection with Adrian Gillespie. Will Douglas Colquhoun respond to that, please?

Colin Beattie: I hope that he is there.

The Convener: Please turn on Douglas's microphone.

Douglas Colquhoun: Sorry. Can you hear me now?

The Convener: Yes, we can hear you.

Colin Beattie: Did you catch the question?

Douglas Colquhoun: I did—thank you very much. I think that Adrian Gillespie covered this in an earlier response. In regard to the comments that the FSB and others have made to you, we do look at and reach out to them. As I said in my earlier answer, it was a unique circumstance, and, as Malcolm Roughead has said, we work closely with a range of industry and representative bodies to agree how to respond to Covid and so on. The

criticism is a little unfair. As I said earlier, an extensive Covid response group was set up under the Scottish Government umbrella. It involved the FSB and others; we were involved, too. There were opportunities to engage with all those groupings. Adrian Gillespie will take on board the comments that have been made and will reach out to the groups to improve relationships with them.

Fiona Hyslop (Linlithgow) (SNP): Good morning. I congratulate Adrian Gillespie on his recent appointment.

I want to ask about supply chain resilience. In Scottish Enterprise's submission, you highlight your work in increasing the personal protective equipment supply chain, which was really significant. I am interested in what you are going to do in other areas. Specifically, you will be familiar with the recent decision by the UK Government in relation to Valneva and the significant promise of investment in that area. I do not expect you to comment on the rationale or the inconsistency of the UK Government's decision making on that, but it is a major global opportunity for life sciences investment. I am interested to hear what you are doing to support the business minister in his engagement with the company, and I would like to hear about Scottish Enterprise's wider work in supply chain development and resilience.

I would also like Malcolm Roughead to comment on supply chain resilience for the tourism sector. There is a great deal of pressure on the sector, so please give us some initial comments and tell us what might help to mitigate some of the pressure, bearing in mind that some issues might be outwith the control of VisitScotland, for example.

Adrian Gillespie: I apologise again for my connection. I will try to answer and I hope that the connection does not drop in the meantime.

We learned a lot from the Covid experience and we are putting that into practice, particularly around the new opportunities in emerging areas such as hydrogen, health technologies and health manufacturing. We are involved in several initiatives that specifically look at supply chain development, for example the medicines manufacturing innovation centre that is currently being built outside Glasgow airport, which will bring together supply chains of different sizes. Increasingly, we are putting supply chain practice into the development of our clusters with the range of companies that we work with, as well as the companies that our partners are working with to bring that together.

We are connected and closely engaged with the minister on the situation with Valneva. I believe that there will be further meetings on that today. We will be staying very close to that and

supporting whatever emerges out of the current discussions.

Fiona Hyslop: I suspect that the committee might want to hear more about supply chain development more widely, but we might not have time for that today. I am sure that we can follow up with Scottish Enterprise to get more detail on what you have gone through, which sounds very promising. Malcolm Roughead, do you want to comment from the tourism industry's point of view?

10:45

Malcolm Roughead: Yes. You will be very familiar with one aspect of it on the events side. It is great to see events starting up again, which will relieve some pressure because, in many cases, they are microbusinesses. The support that was given to them to get to this point was very gratefully received—many of those businesses would not be here had it not been for that.

Equally, on the wider tourism side, the Scotland loves local campaign has been incredibly successful; we are seeing local suppliers being preferred over more corporate businesses. That all adds to authenticity in the sense of ownership and communities. The more that we can promote that the better. I would really like it to be an on-going situation, as opposed to people suddenly going back to how it used to be. It has brought so many people together and it has opened up new business opportunities for businesses that were perhaps slightly one dimensional in their business model approach—I mentioned the word "diversification" much earlier on. It has also allowed for more local employment because it has created opportunities.

We have a big labour shortage across many sectors, not just tourism and hospitality, and there is a question whether we need a national or a sector-specific task force to look at what we can do and how to prevent this happening further down the line.

Fiona Hyslop: I am very conscious of time, but we might want to come back to the agencies at some point about those issues.

The Convener: That is much appreciated. I now move over to Maggie Chapman.

Maggie Chapman: Thank you all for the information that you have provided so far this morning. I am going to pick up on something that allows us to look ahead and see how planning is shaping up for the immediate future and longer term. The transition to net zero is expected to be a significant theme across the new economic strategy for Scotland. I have a question for Adrian Gillespie and Malcolm Roughead. How aware and

prepared are businesses in your areas, and what is your organisation doing to support the transition? Do we need to be thinking about different approaches around increased conditionality, for instance, with notions of fair work and the move to net zero as we look ahead? Adrian Gillespie can go first and then Malcolm Roughead.

Adrian Gillespie: The transition to net zero is a huge opportunity. It is central to our current business plan and it will be central to our next business plan—a three-year plan—which we will publish next year. In terms of business readiness, it is a mixed picture. We have surveyed businesses that we work with, and around half of them are advanced or have taken large steps towards net zero. However, that leaves half for which a large amount of Scottish Enterprise support and the support of our partners will still be essential for the transition to net zero.

We provide support in a number of ways. We have funding mechanisms in place such as the low carbon transition fund, and, as an agency, we set an example in terms of our targets and practices around net zero. However, there is much more to be done. In our key new-opportunity areas, you will see that low-carbon opportunities such as hydrogen are front and centre. That is where we think future opportunities lie, and it is where we will focus our activities. Net zero is hugely important—it is a big area of focus for us.

Malcolm Roughead: Prior to Covid, the 2030 tourism strategy had responsible tourism at its heart, but Covid has accelerated the necessity to get that up and running and back on track. The issue around leadership that Adrian Gillespie refers to is about what VisitScotland as an organisation is going to do. It is all very well talking the talk but we need to walk the walk. If we are going out there talking about the opportunities and the need to get to net zero, we have to deliver on that ourselves. Through our board, we have just agreed our strategy on becoming a net zero organisation by 2030. When it comes to our activity impact assessments, I would like us to build in a view on the carbon emissions from each activity and on how we can mitigate those emissions.

Maggie Chapman: That links to what you said in answer to a previous question around diversification and loves local. There is a huge opportunity there.

I want to extend this a little bit and look more broadly. Decades of business support and economic development have not really changed systemic issues in our economy, with low productivity, stagnating rates of entrepreneurialism and so on. What could we do better in the coming years so that we do not just keep doing more of

the same? How can we do that better and in a way that will drive the change in direction that we need, not only around net zero but longer term and more broadly? That question is for Adrian Gillespie and Malcolm Roughead.

Adrian Gillespie: You are correct in what you say about significant measures. We need to shift them, and the work that is under way around the economic transformation plan will focus strongly on that.

Some of those indicators are absolutely key and, over the coming years, I want to put much more focus on measuring the amount of innovation and the amount of research and development that happens in Scotland. If we have innovative companies, we have a significant impact on measures such as productivity, investment and, in particular, internationalisation and levels of international trade. Although it is really important that we focus on these markets, it is even more important that we give companies all the support that we can on being innovative, adopting innovative work practices and harnessing all the assets that they have, in particular, the creativity and skills of their workforces. We have made significant steps on that over the past few years. We established the workplace innovation team, and we work very closely with companies and partners to ensure that everybody can contribute and that there is an employee voice. That is critical to innovation.

If there is one thing that I want SE to put much more focus on, it is working with many more companies on becoming more innovative and developing their workplace practices, because that could make a significant difference. That will require focus, because the challenges are not insignificant and, as you correctly say, they are long-standing challenges. However, with concerted effort, we can start to shift on that. With the focus on innovation that we put in place during my previous spell in Scottish Enterprise, we started to see the numbers of innovative and active companies shifting in the right direction. I am optimistic that we can make a big difference on that through focus and extending our support to many more companies.

Malcolm Roughead: I agree whole-heartedly with Adrian Gillespie. We need to remember that tourism is a people business. It is about interaction and, as I said, authenticity that comes from community ownership. We have to make sure that the conditions are right and that the support mechanisms are in place. I have mentioned many times today the use of technology that allows people not only to be more competitive but to reduce their costs, which they can be encouraged to invest in their businesses.

Business support and advice will be very important. I caution that productivity in certain sectors will not be the same as in, for example, highly mechanised and automated sectors. To compare life sciences with tourism, for example, will give a false picture.

Alexander Burnett (Aberdeenshire West) (Con): I thank Malcolm Roughead for his recent spotlight on Aberdeenshire. I hope that, when he has had a chance to collate the figures, we can hear how that work went on, particularly if the tour of Britain is set to benefit the north-east for the next decade.

My questions are on Scottish Enterprise's recent annual report. I am looking at a table produced by the Scottish Parliament information centre on your primary outcome measures. Although planned R and D investment and planned capital expenditure pretty much held their own despite the circumstances, growth funding and planned international export sales have halved.

The first question is for Douglas Colquhoun. Will you comment on the figures, what the projections are and what we can expect in the coming year?

The next questions are for Adrian Gillespie. What will you do to improve export sales? What kind of interaction goes on with the Department for International Trade? On the UK's new investment offices and the new export support service that is starting up, in particular, how do you and the department interact? What would you ask of MSPs in finding businesses in our constituencies or regions that have export potential? We have had recent problems with connectivity. What are the major impediments to improving our exports?

Douglas Colquhoun: As you have pointed out, investment in R and D and capital investment held up rather well in the situation last year. A combination of factors, including the European Union exit and Covid, made it much more difficult for exporters to reach their markets and develop new markets. Scottish Development International is very strongly focused on that in terms of economic recovery this year. Trading conditions are being affected, and we think that exporting activity will be along the lines of £1.1 billion this year.

On the investment activity that you referred to, we invested £76 million last year through our growth investments team. We remain one of the top 10 investors across the UK for supporting early-stage growth investment, and we will continue to do that in the current year. That is the situation that we find ourselves in. We are a gap funder, so we deal with the riskier end of the market. We rely on private-sector partners to bring forward deals to enable that to happen.

Alexander Burnett: I have one follow-up question on that. What metric do you have for the return in international export sales on the money that you spend?

Douglas Colquhoun: We monitor the financial support and advice that we provide to the companies that we reach out to and engage with, and we see how their international sales increase as a result. That is the metric that we look at.

Direct financial support tends to be very small. Last year, we delivered a lot of support virtually, which is referenced in our written submission. Given the situation, as Malcolm Roughead alluded to earlier, a lot of trade events were cancelled, and we found different ways of dealing with that. We hosted virtual meetings between overseas buyers and Scottish companies, and we used our globalscot network to facilitate some introductions.

11:00

Alexander Burnett: My next question is for Adrian Gillespie. How are we going to improve the export situation?

Adrian Gillespie: Just to comment on the measures, we are seeing a recovery in inward investment starting—there are positive signs on that. I mentioned some of the complexities around international trade. We work closely with the Department for International Trade. Particularly out in markets, our staff are co-located in the majority of cases and we share information and work together.

I mentioned that one of the most significant impacts that we can have on numbers of exports is through more companies innovating in relation to international markets. I see that as absolutely critical. We know that innovative companies are much more likely to export, so we need to focus on that early stage and that pipeline. The in-market support and the contacts that we make in market are very good, but we need more in the pipeline—we need more companies that are innovating for international markets. As I mentioned, that is where we will put a big focus.

Alexander Burnett: What advice and direction should we give to companies in our constituencies or regions? Should we send them to you?

Adrian Gillespie: Initially, the Find Business Support website is the best way of accessing the support of all the partners. Between us, we will find the best and most appropriate support for companies. That would be the first point of entry.

The Convener: Gordon MacDonald, do you wish to ask any questions?

Gordon MacDonald (Edinburgh Pentlands) (SNP): No—I am fine, thank you.

The Convener: That brings us to the end of the evidence session. I thank Adrian Gillespie, Douglas Colquhoun and Malcolm Routhead for attending and for giving us their time.

We will have a short break to allow for the changeover of witnesses.

11:02

Meeting suspended.

11:07

On resuming—

The Convener: I welcome our second panel of witnesses, who are Carroll Buxton, interim chief executive of Highlands and Islands Enterprise; Nick Kenton, director of finance and corporate services with Highlands and Islands Enterprise; Jane Morrison-Ross, chief executive of South of Scotland Enterprise; and Anthony Daye, director of finance with South of Scotland Enterprise.

I will start with a question for the chief executives. We have been through a very difficult time with the pandemic, and the committee recognises the difficulties for businesses. What are the most pressing challenges that face businesses in your regions? I will go to Jane Morrison-Ross first.

Jane Morrison-Ross (South of Scotland Enterprise): We know that businesses in the south of Scotland are struggling with some of the impacts of leaving the European Union. We are seeing challenges with the supply chain and with skills shortages—and, more than that, actual shortages of people to take up posts—particularly in haulage, manufacturing, tourism and hospitality. We are seeing major impacts across all those areas.

A secondary issue that we are seeing is that there is an abundance of applicants for some jobs, particularly in professional categories, but a shortage of housing across the south of Scotland is now coming into play.

The Convener: There are obviously significant challenges. Can the enterprise agency offer any immediate responses to ease some of those challenges, or are they just too difficult to address in the short term?

Jane Morrison-Ross: We are working across a number of areas to address challenges in the short, medium and longer terms. We are working with regional social landlords and with tourism businesses to look at aggregated supply chain solutions in both those areas. We are working with the construction industry and the construction industry innovation forum to look at energy solutions. With the haulage industry, we are

supporting training and other opportunities and additional measures to address driver shortages. We are working with colleges and tertiary education providers across the region to identify and address additional skills gaps that we can close quickly.

The housing challenge is slightly more difficult, but we are working with both of the councils in the area and the regional economic partnership to look at what can be done there.

The Convener: I put the same questions to Carroll Buxton.

Carroll Buxton (Highlands and Islands Enterprise): Although there are still significant challenges in our region from Covid and Brexit, there are now signs of optimism. Our recent business panel survey, in which we surveyed 1,000 businesses from across the region in all sectors, showed that well over half of them now feel much more positive about the economic recovery in Scotland. That said, the impact of the pandemic was felt strongly in the Highlands and Islands, because we have a high dependence on the tourism, food and drink and creative sectors, which were probably the hardest hit by Covid and by Brexit.

In the main, the challenges have been very similar to those outlined by Jane Morrison-Ross. We have recruitment challenges, particularly in rural and island areas. We do not have figures at the moment but, anecdotally, staff shortages have resulted in reduced opening hours or in businesses closing or not providing services on certain days. To raise a similar issue to one that Jane mentioned, 40 per cent of employers who cited labour market or workforce supply issues cited availability of or access to housing as a key constraint.

We are all well aware of supply chain issues in construction, in terms of material shortages and price increases. That said, businesses have again been innovative in how they address those issues. For example, in the food and drink sector we have worked with businesses on a logistics platform to help businesses to work together collaboratively to ensure that they can get their goods to market and to their customers timeously.

Those are probably the key issues. Finally, particularly in the small and medium-sized enterprise sector, there is still uncertainty about what will happen next, which has an impact on how businesses plan for and feel about the future.

Jamie Halcro Johnston: My question is for the two chief executives. Throughout the pandemic, there has been a need to support businesses to get them through it. However, as we come out of it, how will you balance the need to continue to support certain sectors with the need to ensure

that there are new businesses and start-ups and to support entrepreneurship? As South of Scotland Enterprise is a relatively new organisation, I ask Jane Morrison-Ross whether she feels that she has sufficient budget and resources to be able to do that.

I will go to Carroll Buxton first and then to Jane Morrison-Ross.

Carroll Buxton: Are you asking specifically about the budget and the potential to support businesses?

Jamie Halcro Johnston: If you have a concern about your budget, I am happy for you to raise it, but the question is really about how you achieve a balance between supporting existing businesses and supporting new businesses and entrepreneurship.

Carroll Buxton: We run entrepreneurship programmes, which are always well received by entrepreneurs in the region. We have a programme called impact 30, which is primarily focused on the under-30s. As I say, those programmes are very well subscribed and popular. As you know, HIE is very place based, so we look at a range of businesses across the area. We will look at business start-ups where there is an opportunity to do so—for example, we will do so when there is no displacement.

We have a good range of support for start-ups, alongside Business Gateway, with which we have a good relationship. We are co-located in certain areas, so Business Gateway can move businesses through the system, perhaps from a very early start-up stage to HIE. We provide advice and information to start-up businesses, mainly through the Find Business Support website, which you have heard about, but also through direct engagement with staff in our area offices.

11:15

We will perhaps talk more later about our current and future budgets, but I think that we have capacity to support growth businesses and smaller start-up businesses. We have a client segmentation model that involves a pyramid of support. At the top, there are the international global businesses—we do not always engage with them on a financial intervention basis; it is more about making connections and working with them to find solutions to issues that they might have. We then have our high-impact clients, where we see a lot of opportunity for growth. We have development plans with them, which can involve a bespoke programme of support.

Then, as I mentioned, we have our place-based organisations. For example, it might be a business

that is vital in a particular community and that sees an opportunity. We can intervene with such businesses on a one-off transactional basis over a period of years to support them to pursue the sort of opportunities that I have identified or to address barriers. We have talked about the barriers to do with issues such as logistics in some of our more peripheral areas.

Therefore, I think that we have capacity to do both.

Jane Morrison-Ross: This is an interesting time for us. As we have come out of Covid response, we have looked long and hard at our organisation at the end of year 1, as is normal. We have carried out an organisation redesign and restructure to make us a simpler organisation to engage with, and to make more efficient and effective use of our processes. Our ambition is to be as lean and green as possible. As part of that, we have appointed a new head of innovation and entrepreneurship and a new head of digital development, and those two areas are working closely together to look at what we need to do, not just on start-up and scale-up but on pre-start-up spark support, if you like.

We are looking across the south of Scotland at the opportunities for innovation. That is not just about technology-enabled innovation; it is about innovation in traditional industries that is perhaps enabled by technology and innovation in the supply chains around those traditional industries. For instance, in natural capital, we are looking at forestry, agrotechnology and other such areas. We have also done a complete review of our client journey and client experience, from first point of contact onwards, to make that as efficient and effective as possible.

It is a huge area of opportunity for us. As part of that, we now have Business Gateway in-house in Scottish Borders Council and we are working with Dumfries and Galloway Council on opportunities to do something different in that area, too. That means that we can develop a one-stop shop or provide one window to the support services that we are developing and delivering, whereas we are doing two things in parallel at the moment.

We are also working with a number of partners, from chambers of commerce to the Federation of Small Businesses, Women in Enterprise and others, to look at how we can grow and increase the number of women in enterprise and support underrepresented founders across all the industry sectors.

On the budget, much as Carroll Buxton said, we can do what we need to do within the budget at the moment. We have not finished recruitment, but we were originally forecast to have around 170 people by the end of year 2. We believe that we

can come in under that figure but still be resourced to deliver, including in new areas that will be critical going forward such as internationalisation and export. We believe that that area offers huge opportunities for companies and organisations across the south of Scotland.

One area where we will need to look long and hard at our capacity to ramp up the support and funding that we have available to businesses in the south of Scotland is digital. Again, we will not reinvent wheels, and we are working with a number of partners, including CENSIS and the Data Lab.

Jamie Halcro Johnston: I am conscious of the time, so I will ask both of you just one more question.

You have talked about some of the limitations, and you have highlighted digital issues. We have seen some of those issues today. Given the issues that are faced with rural broadband and the nature of the areas that you cover, what do we need to do? How can you work to try to deal with some of those barriers, particularly digital barriers? You mentioned the rural housing issue. What do we need from the Scottish Government to address that? As you have said, there can be jobs in a place, but if there is no broadband, rural housing and other services, it is very difficult for businesses to grow and to encourage people to move in.

Jane Morrison-Ross: We are looking hard at the connectivity landscape in the south of Scotland. The full roll-out has been in play in the south for only a number of months. It is partly about managing expectations. We are not as far ahead with broadband roll-out as some other areas are, but that is in progress.

Our new head of digital has been looking at that. We believe that we will hit around 87 per cent coverage with the final roll-out, although it could be higher. We are looking at the potential for closing some of the gaps in partnership with existing businesses in the south of Scotland that provide additional last-gap services to address how we can close the final mile for some businesses and organisations, particularly in our more remote and rural locations.

The housing issue is perhaps newer for us than it is for HIE. We have already written to the Scottish Government to ask for consideration of the targets for the number of houses to be built across the south of Scotland. We are working with the regional social landlords, and we are looking at the capacity for the reuse of derelict buildings. We believe that that could be an interesting project, particularly in supporting the regeneration of some of our towns in the south of Scotland. There is a real opportunity there.

Carroll Buxton: We have been heavily involved in digital infrastructure for some time. As Jamie Halcro Johnston knows, there is still a little bit of a journey to go on in the Highlands and Islands, but we are working very closely with the Scottish Government and others to try to fill gaps that remain.

We have been very active in promoting digital uptake, encouraging people to sign up for improved connectivity, and trying to demonstrate to them what they can do with that digital connectivity, because it is a means to an end, and not an end in itself.

Over the past year, we have run a series of digital enablement grant schemes that encourage businesses to invest further in digital hardware, software and skills. They can use those grants for a variety of things.

We have been working with a number of partners in the private, public and social sectors to look at different models of providing housing, and we have done surveys of whether the housing need and demand assessment works for small developments in rural areas. We are looking at different models and maybe supporting the private sector with housing development in areas of greatest need.

Our work with communities and how we can support them to develop their own houses are also important in the Highlands and Islands. There are some very good examples of that in Colonsay and other more peripheral areas of our region. There are opportunities to work with community landowners and community organisations to undertake development at their own hand.

Michelle Thomson: I will start with a question for the two directors of finance—Anthony Daye and Nick Kenton. You may have seen that, in the previous panel session, I wanted to explore the extent to which people are confident about their projections for next year's budget, given the considerable uncertainty, what had been looked at in scenario planning, and their confidence level around that. Please keep your answers brief. I do not need to go through every single budget line; I simply want to get a sense of where you are at with that.

Anthony Daye (South of Scotland Enterprise): On confidence about next year, we are slightly different from the other two agencies in that it is our second year, and we have been talking with the Government about what the plan would be. There is a five-year capital plan, and we expect a slight increase in capital next year. The same applies to revenue. We realise that the Government is currently embarking on a spending review, and we will seek clarity with it as soon as we can in feeding into that process.

If we get that settlement—we expect £17 million in revenue, £15 million in capital and £5 million in FTs—we would see that as sufficient to meet the needs that we are forecasting in scenario planning. However, as you have indicated, that is dependent on conversations with the Government and how the spending review goes.

Michelle Thomson: If you do not get what your projections are, do you have mitigations in place?

Anthony Daye: In our scenarios, the first part is continuing to talk to the Government about trying to meet any gaps that arise. The second part is partnership working and leveraging other funds that are out there—Jane Morrison-Ross and Carroll Buxton alluded to that. I am talking about the team south of Scotland approach with councils, the regional economic strategy, and how we work with councils, the national health service and other partners. I think that Jane Morrison-Ross mentioned the Data Lab in relation to digital. Those are the starts of the mitigations in filling any gaps that may arise as a result of the spending review.

Nick Kenton (Highlands and Islands Enterprise): As others have said, we have had notification of our indicative capital for next year. That shows a slight increase, from £25.5 million to £25.6 million on the baseline, and an increase in the green jobs fund from £800,000 to £1.4 million. We also expect some funding for the reinstatement of the funicular railway at Cairngorm, which is a particular pressure for us. Obviously, we are in close dialogue with the Scottish Government about that.

At the moment, we are not fully legally committed for the next financial year, but that will always be the case six months away. When I refer to legal commitments, I mean projects for which we have signed on the dotted line. We have a strong and healthy pipeline, and that is what we are working on to make sure that we can utilise all the budget.

I do not think that there is a problem in being overcommitted. We will, of course, always discuss with the Government any opportunities that we have, but I think that we have sufficient to meet our current pipeline of capital, bearing in mind all the pressures on capital funding that we have heard about. We have had to be fleet of foot and move things around quickly. In the year that has just finished, for example, we secured £6 million of additional funding in the last two months from the Government, which we were able to get out into the economy. It is really important to be fleet of foot.

I emphasise the points that were made earlier. It is not just about our own funding; it is also about signposting to other funding that is available.

We do not yet know what the revenue will be. We are modelling a flat-cash scenario. We are not fully committed at the moment, but I would not expect us to be at this time. At the moment, we are revisiting all our pipeline projects in the light of net zero and working to make sure that all the golden threads are featuring in all our pipeline projects. We are still working on that.

On financial transactions, that is still quite a new budget for HIE. We have £2.6 million this year. If we see the same next year, I think that we will have headroom. We have struggled to spend that money in the past couple of years. That is probably a combination of its having been new to HIE, HIE's being focused on Covid funds, and a lack of appetite for debt out there. We still need to work on that. We are discussing with the Scottish Government how we can make best use of the financial transactions budget.

That is a summary of where we are at the moment.

Michelle Thomson: That is very helpful. Thank you.

I want to bring in Jane Morrison-Ross and Carroll Buxton. Nick Kenton used a term “golden threads”. One of my golden threads to obtain diversity in our economic output is ensuring that women-led businesses are adequately represented. There has been a lot of chat. We know that women have been disproportionately affected, and I suspect that women-led businesses have been disproportionately affected. I would like Jane Morrison-Ross's and Carroll Buxton's observations on that.

Jane Morrison-Ross: We see that as an area of opportunity in the south of Scotland, and we recognise challenges in the research that WES recently published. We are working with it and other partner—[Inaudible.]—specific interventions and specific support that we can give, not just for start-ups but for the pre-start-up spark, which I mentioned earlier. We know that there are women out there who have amazing ideas but perhaps lack the confidence or the channels to take them further. We are working on that just now. That is part of the remit for our new head of innovation and entrepreneurship.

We are working with appropriate partners to identify and deliver that throughout the south of Scotland. In addition, underrepresented founders generally come under additional areas, so potentially under diversity and inclusion, too.

11:30

Carroll Buxton: We looked at some of the information that was provided by WES recently. The grant award levels were probably tracking the

number of women-owned businesses but, obviously, we want to increase them.

We have a very good proportion of women participants across our business support programmes—for example, in entrepreneurship. Across the programmes as a whole, there is about 45 per cent female participation. That rises to nearly 60 per cent in leadership programmes, for example. That is very positive, because businesses can move from those programmes to access other services and support from HIE.

We have also run and participated in a really positive women entrepreneurship programme on the west coast of our area. That provides more gender-sensitive support and helps businesses to look at how they can access finance from other lenders.

There are good participation rates at a programme level, and we are seeing that they are beginning to filter through into other forms of support, such as financial support.

Maggie Chapman: I thank the panel for joining us. I have questions on two different but connected areas, the first of which is place-based economic development. The advisory group on economic recovery suggested that we need more regional place-based approaches to economic development as the current system is perhaps a little too top-down. Do you expect to see regional place-based approaches in the new economic development strategies that are under development? Given that your organisations are regionally based, what learning can you give us for thinking about this more generally? I ask Jane Morrison-Ross and Carroll Buxton to answer those questions.

Jane Morrison-Ross: We have been involved in the consultation on the development of the 10-year transformation strategy and we understand that it will be designed to be truly transformational. We have given strong encouragement for a place-based focus to be part of that. A sectoral approach is perhaps not as useful for us in the south of Scotland, as we have industry clusters that are parts of national sectors rather than being sectors in their own right. We find it extremely useful to be able to tailor interventions to our place. We have dispersed and rural economies across the south of Scotland. We have real innovation in multiple sectors from manufacturing and natural capital to agriculture, but they need slightly different mechanisms of support and perhaps a more tailored one-to-one approach.

We recognise that a number of the organisations and communities that we work with—communities are as important to us—need longer-term support and intervention to get from where they are now to a place where they can fully

take advantage of the support that both we and partner agencies can provide. Those agencies include our sister enterprise agencies, Scottish Development International and the Department for International Trade.

The ability to tailor and focus by place is hugely important to us. That is also reflected in the work of the regional economic partnership, which has now published for final approval the regional economic strategy for the south of Scotland. It contains six thematic areas that we believe will dovetail well with the current national strategies that are in development, but they also reflect strongly the specific needs of place and the ambition that we are seeing reflected right across the south of Scotland.

Carroll Buxton: I endorse and agree with everything that Jane Morrison-Ross has said. As you would expect, HIE is advocating strongly not only a regional approach, but a place and more locally based approach to economic transformation in the upcoming strategy.

We are a regional organisation and a dispersed organisation with offices and staff based across our very large region. The Highlands and Islands contains a number of fairly distinct economies, so it does not necessarily work to look at the area as having one big economy. There are local disparities across the area that require a much more tailored and responsive approach to both business and community development, and we take such an approach through our structure.

At Scotland level, we probably need to look collectively at how we assess outcomes and impacts relating to specific investments. As you can imagine, a relatively small intervention in a small community or a more peripheral area can have a significant impact on that area. There may not be hundreds of jobs, but in some places in our region a handful of jobs can make the difference. We need to look at return on investment in a slightly different way.

We are also working on a tool to help us to prioritise and assess that different type of development. How can we compare apples and oranges? We are looking at various aspects and features of particular communities or economies in our area to see how we can measure the comparative impacts of specific interventions in order to help us to prioritise in our decision making.

Maggie Chapman: We might come back to you on the learning that you get from that tool, because it sounds really interesting.

You both talked about linking economic transformation to community wellbeing. That is really important, and it is a strand of work that is in development around the wellbeing economy. My

second question is on that subject. How are you supporting businesses and modelling the leadership to enhance activities in line with the wellbeing economy? I am particularly interested in the links to community wealth building and those kinds of fundamental transformations that will change how people relate to their local economies, never mind a broader economic system.

Carroll Buxton: The themes that we see contributing to the wellbeing economy include fair work, our procurement and our approach to inclusive growth. We try to make sure that opportunities are open to all across our region. As you know, there is probably no specific funding allocated to the wellbeing economy, but we have a strong focus on fair work across our agenda within HIE and we encourage all businesses of all sizes to contribute to the fair work agenda and sign up to fair work principles.

We also look at the matter in our procurement and consider how those in our supply chain can bring community benefit and contribute to the wellbeing economy through how they operate their businesses. We are working with a supplier development programme to try to build that in, because it should be endemic in our communities and our businesses. We are working with the Scottish Government on the sustainability test in our tendering strategy to make sure that we are operating on a level playing field and giving indigenous businesses as good a chance as others to participate in procurements.

Jane Morrison-Ross: As part of our restructure, we have placed even greater emphasis on our communities team. We have been part of the Scottish Government's pathfinder on community wealth building and we have been working with the Centre for Local Economic Strategies, which has given us a report recently. We are looking at how we can embed that and take it forward.

Fair work is written into our charter and we now have a fair work team that is looking at the matter both internally in order to make sure that we are doing everything that we can do, and externally, because fair work is a condition of our funding. We are taking a tailored bespoke approach as we recognise that microbusinesses, communities, SMEs and others will all be at different points on the journey. We want to take a constructive and positive approach to supporting them through that work, because the organisations in general have the ambition to make those changes.

We are doing the same thing with net zero. We are actively looking at how we can engage and support microbusinesses, SMEs and communities in the net zero journey, and at how we can raise awareness. We have discovered that many

businesses in the south of Scotland are already doing things in relation to fair work, net zero and communities, but they do not necessarily realise that they are doing it. We are looking at how we can amplify and turn a spotlight on that.

We have specific teams and funds available to communities and we are working in a hands-on way to try to grow those, and to grow awareness of the support that we can give. SOSE became operational on 1 April 2020, which was just as Covid hit, and like the other agencies it concentrated on crisis response and support. We are now trying to ramp up awareness across the south of Scotland of the support and expertise, as well as funding, that we can provide to help in all those areas.

The Convener: Colin Smyth has an additional question on this area.

Colin Smyth: I want to follow up on fair work, which both Jane Morrison-Ross and Carroll Buxton touched on. When the bill to establish South of Scotland Enterprise went through Parliament, we included a requirement around fair work. I pressed for that and I support it, but does the fact that it is a condition of grants for South of Scotland Enterprise but not for Highlands and Islands Enterprise and Scottish Enterprise bring challenges in relation to having a level playing field? Highlands and Islands Enterprise does a lot around fair work, but it does not have it as a condition of grants. I appreciate that that is because its legislation is quite old, but surely it should make it a condition of grants in the same way that South of Scotland Enterprise does.

Jane Morrison-Ross: I believe that HIE and SE have conditionality around fair work in their funding but it is set at a different ceiling. However, I will let Carroll Buxton comment on that, because she can respond more accurately than I can.

The key thing for us is the bespoke tailoring of what we do, because we recognise that—*[Inaudible.]*—become a living wage employer without support from us in order to realise different mechanisms to release profitability or reduce costs in other areas to make that leap. Other areas of fair work are important, as well as the living wage piece. We have an experienced and specialised team that helps organisations to move along the path as efficiently and effectively as possible. The timescales are set by each organisation, and they are reasonable timescales, because we do not want to extend fair work principles in a way that does not add value to employees across the south of Scotland. It is an area that we are hugely focused on.

Carroll Buxton: I clarify that we have fair work conditionality attached to financial interventions of more than £100,000 and we strongly advocate

businesses committing to fair work, undertaking the fair work assessment tool and developing an action plan for all our levels of assistance. We promote and advocate a fair work approach. For example, we recently extended our graduate programme using Covid consequential funding, and all businesses that wished to apply for graduate support were encouraged to undertake the fair work assessment and commit to improvement.

As an organisation, we work with all our clients on business values, so although they might not have signed up to the Scottish business pledge, they can track their progress with the adoption of fair work practices over time through the discussions that we have with them. They can look at the fair work assessment tool and plot themselves against the various criteria to see how they are improving. For us, it is fundamentally about promoting the benefits of fair work, which is seen to enhance productivity and increase staff retention. At the moment, those things are critical and fundamental to business success.

The Convener: The next question is from Colin Beattie.

11:45

Colin Beattie: I would like to expand on the question of conditionality. The programmes have typically focused on two criteria—the jobs that are created and the growth in turnover. Should we move away from that? We are talking about fair work, but there is also inclusive growth and there is net zero transition, which could legitimately become conditions. Should we increase conditionality? If we did so, how would that impact on the businesses that you support?

Carroll Buxton: We have said to the committee before that, in encouraging businesses to adopt certain practices, we sometimes believe that the carrot is better than the stick. That being said, conditionality is appropriate in certain circumstances, but it has to be proportionate and we have to try to avoid unintended consequences that could in some cases put businesses off.

You mentioned turnover and the jobs that are supported. Those are important factors, but they are only parts of the picture and we need to see them in the context of our place-based approach, as I mentioned earlier. Some investments that we make might not create large numbers of jobs or huge increases in turnover, but they can have significant impacts on the sustainability of the community, for example, or of the supply chain in a certain area.

Conditionality can be appropriate, but we need to ensure that it does not impact adversely on, for

example, businesses of a certain size, or certain sectors.

Colin Beattie: Could you have a standard portfolio of conditions that would apply to all applicants and then other conditions that would apply more selectively to a business?

Carroll Buxton: Whenever we enter a legal agreement on an undertaking with a business, it will have certain conditions attached to it that are appropriate to the business and the development. That means that our approach is quite tailored and bespoke. If I understand you correctly, you are asking whether we could have a range of levels of conditionality across the spectrum of business size and business development. That is certainly worthy of consideration.

Colin Beattie: Is it something that you are considering?

Carroll Buxton: In relation to fair work, yes—I think that it is. In relation to net zero, when we look at business development, we try to encourage our businesses and our staff to look at everything through a net zero lens to see whether a proposition could be improved or whether there is a better way to help the business to make the transition to net zero. Those are all things that we are looking at.

Colin Beattie: If we are looking to have an inclusive economy, should we have that incorporated as, perhaps, inclusive growth within the conditions automatically?

Carroll Buxton: Sorry—are you referring to fair work or inclusive growth?

Colin Beattie: Overall, we are looking at growing an inclusive economy.

Carroll Buxton: Yes—absolutely.

Colin Beattie: Should there be some conditionality that relates to that in the conditions for all applications?

Carroll Buxton: I think that, because HIE operates as a regionally based organisation that looks at a range of sizes and types of project in a specific place context, it is very much working towards inclusive growth. We look at projects through a different lens in peripheral areas and island communities compared with, for example, the centre of Inverness.

As I said, appropriate conditionality is the right way to go. I do not think that it would be appropriate to have hard cut-off levels that were applied as a blanket approach across our economy, but I absolutely agree that we need to look at inclusive growth, which is the way that HIE tries to do things.

Colin Beattie: Jane, will you comment on your statement in your written submission that, in designing your processes, you looked at things

“differently by not putting too many, if any, criteria”

against anybody applying for them. Will you give us some more detail on that and what it means in relation to any conditionality?

Jane Morrison-Ross: Certainly. We have specific conditionality in relation to fair work and, as Carroll Buxton mentioned, other conditions apply on a project-by-project, organisation-by-organisation basis. We are reviewing net zero and looking at how we can introduce a measure of conditionality on that in an appropriate way and, again, a way that is tailored to each individual case.

We are of a scale and we have resources such that we can tackle each submission on an individual basis. As Carroll highlighted that HIE does, we work on an individual basis with each organisation or community to assess what is appropriate for them. However, we are continually monitoring the approach. We look at each potential support mechanism through three lenses, all of which have wellbeing at their heart. They are the community, environmental and economic wellbeing of each individual project.

The other side of that coin, which Carroll highlighted earlier, is that we are looking at and redesigning our performance measurement criteria to make sure that, if we are not applying something as conditionality at present, we are measuring how successful we are in using it as an intervention. That includes fair work, net zero, inclusive growth and, with some of the longer-term investments and projects that we are working on, generational return.

It is very much a work in progress for us and we will need to adapt and evolve both as we grow as an organisation and as the number of businesses and communities that we work with across the south of Scotland grows.

The Convener: I am prepared to bring in Colin Smyth for a brief question, given that it is his region that is being discussed, after which we will move on to questions from Fiona Hyslop.

Colin Smyth: I very much support a flexible approach to grant criteria—in fact, I wrote to your predecessor to push for that early on in the pandemic, because it was clear that businesses were slipping through the gaps when it came to Government support during that period. I am conscious that such an approach makes it difficult for businesses to find out what is available—they cannot just go to a website and find the criteria for a grant, for example. I have lost track of the

number of businesses that I have directed to look at things such as the crisis fund.

Secondly, although a flexible approach is a good one, it presents challenges around governance. I am often asked by businesses, “How come that business got a grant and I didn’t?” It is not easy to tick the boxes on criteria. How do you tackle those two challenges? I think that we should roll out a flexible approach across other agencies.

Jane Morrison-Ross: With regard to the first part of your question, we recognise the issue that you raise. We are addressing that as part of our pivot from crisis response to having a focus on business as usual as the enterprise agency that we want to be and to become. We have undertaken a review of the client journey, which has involved looking at our website and all our processes, from first point of contact, whether via call centre or email. We are now in the middle of completely repurposing and refocusing all those direct methods of communication and training the front-line staff so that, in a short time, when people go to our website, it will be clear that we are there to provide expertise, support, consultancy and, in some cases, funding, grants and loans. We are simplifying all of that to make the messaging much clearer as the focus on crisis management, hardship funding and so on reduces.

We take governance incredibly seriously. We have panels that look at each application and review them using the same approach, while tailoring it to each submission. We have a number of bodies that we work with, including our audit and risk committee and committees that involve a number of our board, to make sure that all our governance and all our processes are transparent, auditable and clear. We do not have a tick-box checklist for organisations, but we work with each individual organisation to make sure that the criteria that need to be in place are there, that we know where any gaps are and that we close those before organisations come forward for funding.

Fiona Hyslop: It is good to see you all. I want to ask about the transition to net zero, and to get your insights on what your sense is of the position of SMEs generally—I am not necessarily talking about those that you work with in relation to grants—in relation to that transition, from their point of view as businesses but also from the point of view of their products and services. What are you doing or planning to do to help to support the wider SME community with that transition? How do you think that the transition to net zero can be financed, bearing in mind that many SMEs are carrying Covid debt, which means that it is a big challenge?

I know that that is a big question and that we can cover only so much today, but I would be interested to hear your perspectives.

Carroll Buxton: As far as SMEs are concerned, it is a mixed picture. There is widespread understanding of the climate emergency, but there might be less understanding of what everybody can do individually.

We have had a number of discussions within HIE and with clients about how net zero is everybody's business. In the Highlands and Islands, we have huge opportunities as regards the blue economy and the green economy, but we rely heavily on more traditional sectors, such as tourism and food and drink. We see it as a key part of our job to help businesses in such sectors to understand what they can do to help us to move towards the transition to net zero. That might include making progress on the circular economy or developing their supply chains. We have had examples of local food supply chains being developed to support the tourism industry.

A key part of our role is to raise awareness of what can be done. We have promoted a number of case studies that demonstrate to other businesses that operate in the same sector what they can do to contribute.

As far as enterprise company support is concerned, we have been working with businesses to help them to move into new supply chains. Businesses have approached us about moving into the servicing of electric vehicles and ground-source and air-source heat pumps rather than more traditional types of heating supply. We are very keen to develop such supply chains and to help businesses to adopt more of a net zero approach. Raising awareness is also critical.

Fiona Hyslop: When it comes to the things that businesses have to do for their own heating, transport and so on, how might those be financed?

Carroll Buxton: There are a number of organisations that can provide finance to businesses. There have been a number of Government schemes for replacing boilers and so on. When we support businesses, we look at whether we can help to identify other forms of support for them. We have done that directly with businesses, but there is also a huge amount of information on the Find Business Support website—some would argue that there might be too much information on that site, which makes it a bit difficult to navigate. However, we are always there at the end of a phone line.

On business development, as I said earlier, it is very much a case of looking at every development that a business undertakes through a net zero lens, with a view to seeing whether it can be done

better from the point of view of the overall transition that we want to make.

Fiona Hyslop: I am not necessarily expecting either organisation to resolve the issue; I am simply seeking your insights, given that you work with many different businesses in addition to those that you give grants to.

Jane, could you give us a sense of that wider perspective?

Jane Morrison-Ross: We have appointed our first director of net zero, around whom we are building a team that will work internally. We have put our board and our senior leadership team through net zero training, which has been hugely beneficial. In addition, we have set up our first net zero commission for the south of Scotland, which has involved working with partners including Zero Waste Scotland, the Scottish Environment Protection Agency and a host of others, not only to provide us with the strategic input that we need for the south, but to help us to identify tools that are already there so that our team can put together a constructive toolkit, in the same way we have on fair work, for SMEs, microbusinesses and communities to make the journey to net zero. Through working with all those partners, some highly targeted tools and interventions are in the process of being developed.

12:00

We have also found it important to use that team to take the message out. We are running a series of events and seminars, as well as producing information for front-line staff that will reinforce all of that. As part of that, we have been going around the south of Scotland filming some of the companies and organisations that we work with in a variety of industry clusters and sectors that are already doing really innovative things on the journey to net zero. Some of those are very practical and tangible small-step interventions. We have just started pushing those out and publicising them. We want businesses to be able to relate to some of the direct measures that they can take and to realise that there are small steps that can be taken, that it does not have to be a big-bang approach and that, if we all make the small changes, it can have a huge impact.

We are also working on things such as the "Powering Change" report that we published in summary before the election. We are at the planning stage in taking that forward. As part of that, we are looking at aggregated interventions across different industry sectors and clusters to make some of the changes that Carroll Buxton highlighted. For example, we are looking at how purchasing power among groupings such as our regional social landlords can be brought together

to make a more powerful change on energy supply, the sourcing of ground-source heat pumps and so on. We are also working hard on innovative projects in hydrogen and other areas, which we believe will be of real value to the south of Scotland as we move forward. It is a case of having not only the golden threads, but the warp and the weft approach as well.

Fiona Hyslop: That was very informative—thank you.

The Convener: Thank you very much. That brings us to the end of the evidence session. I thank Carroll Buxton, Nick Kenton, Jane Morrison-Ross and Anthony Daye for their time—it is much appreciated.

Subordinate Legislation

Recognition of Professional Qualifications (Amendment etc) (EU Exit) Regulations 2021 (SI 2021/574)

12:01

The Convener: We move to agenda item 4, which is covered in paper 3. The committee is invited to consider the consent notification for the Recognition of Professional Qualifications (Amendment etc) (EU Exit) Regulations 2021. The Scottish Government gave its consent to the instrument during the campaign recess.

The purpose of the instrument is to make minor amendments to revoke savings provisions made in respect of the alert mechanism under the Recognition of Professional Qualifications (Amendment etc) (EU Exit) Regulations 2019 (SI 2019/312). Following the end of the transition period, the European Commission confirmed that it had withdrawn all alerts made by United Kingdom regulators, which made it necessary to amend the 2019 regulations to remove the statutory obligations in question, as they had become inoperable.

Are members content to note the consent notification?

Members *indicated agreement.*

The Convener: Thank you. We now move into private session for the remaining agenda items.

12:02

Meeting continued in private until 12:41.

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