OFFICIAL REPORT
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Economy and Fair Work Committee

Wednesday 4 October 2023

Session 6

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ECONOMY AND FAIR WORK COMMITTEE

25th Meeting 2023, Session 6

CONVENER

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

DEPUTY CONVENER

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

COMMITTEE MEMBERS

*Maggie Chapman (North East Scotland) (Green)
*Murdo Fraser (Mid Scotland and Fife) (Con)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Ash Regan (Edinburgh Eastern) (SNP)
*Colin Smyth (South Scotland) (Lab)
*Kevin Stewart (Aberdeen Central) (SNP)
*Brian Whittle (South Scotland) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Stuart Black (Highlands and Islands Enterprise)
Anthony Daye (South of Scotland Enterprise)
Adrian Gillespie (Scottish Enterprise)
Nick Kenton (Highlands and Islands Enterprise)
Alan Maitland (Scottish Enterprise)
Jane Morrison-Ross (South of Scotland Enterprise)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy and Fair Work Committee

Wednesday 4 October 2023

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Claire Baker): Good morning, and welcome to the 25th meeting in 2023 of the Economy and Fair Work Committee. Our first item of business is a decision on taking items 3 and 5 in private. Do we agree to take those items in private?

***Members** indicated agreement.*

Pre-budget Scrutiny 2024-2025

09:30

The Convener: Our next item of business is an evidence session with the enterprise agencies. The purpose of the session is to inform the committee's pre-budget scrutiny work. From Scottish Enterprise, I welcome Adrian Gillespie, who is the chief executive, and Alan Maitland, who is the head of finance and management accounting. From Highlands and Islands Enterprise, I welcome Stuart Black, who is the chief executive, and Nick Kenton, who is the director of finance and corporate services. From South of Scotland Enterprise, I welcome Jane Morrison-Ross, who is the chief executive, and Anthony Daye, who is the director of finance and corporate resources. With six witnesses, it would be helpful if members and witnesses could keep their questions and answers as concise as possible.

I turn first to Scottish Enterprise with questions about the proposed budget for next year. All the enterprise agencies are facing a real-terms decrease in their suggested income. For you, the biggest decrease is in the financial transactions budget, with a decrease of 23 per cent, but the cut comes to about 4.3 per cent across the board. Will you set out for the committee the challenges that there will be in delivering that? I recognise that there was an underspend in last year's financial transactions budget. Will you talk through what the impact of the 4.3 per cent cut will be, or what you anticipate it will be?

Adrian Gillespie (Scottish Enterprise): Good morning, everyone, and thank you for the opportunity to talk to you today. The pattern over the next few years is clearly a decrease in budget, and that has encouraged us to take stock of our focus for future years. The situation is challenging in a number of ways, that is for sure.

I will break the budgets down a little bit. Our resource budget, which funds our salaries and other fixed costs, a lot of our international trade work and our entrepreneurial work, is under particular pressure. Many of those costs are fixed, and, over the next couple of years, our resource income will dip below those fixed costs. We will have to take some measures to refocus and reshape the organisation to accommodate the change in budget.

We have started that work already. There are efficiencies that we look at through the normal course of business, but, last year, we took the decision to close some of our regional offices, with a saving of £1.4 million a year. That reflected the way that we are working now and the demand on those premises. We have taken other measures as promptly as possible to recognise some of our losses, and we are taking steps to capture them as early as possible in preparation for the challenging years that are ahead.

At strategic level with our boards, we are looking at where we invest our funds to get the most benefit. We will be a smaller organisation over the next few years. That is clear from the budget. Therefore, we will have to focus our resources on the areas in which we make the biggest difference and move towards projects not just that are helpful but that are facing into changes in the economy and that will change the economy for the better. We talk of economic transformation, and the projects that we will move towards are those that will have a fundamental impact on a company or at sectoral level.

That is what we are moving to. A new corporate plan will be launched in November, and it will reflect three main areas of focus. First is the energy transition, which is a very clear area of opportunity and threat when it comes to capturing the economic benefit of the transition in Scotland. That will be one of our missions.

The second area is scaling up levels of innovation in the country. We have excellent innovation in Scotland, but we need to get it to levels of scale that will impact major measures of the economy at macro level.

The third area is about facing the issue of low levels of investment and the impact that that has on productivity. We need to focus more of our people and resources on encouraging more investment into the country, and we need to work with those companies that have a big impact on our productivity levels.

As a result of that, there will be things that we will have to do less of, and we will have to do things differently. A lot of the support that we deliver will have to be delivered in different ways, for example by working with cohorts of companies instead of with individual companies, as we might have done in the past. We will still do that, but there will more of a cohort approach. We will move to a more digital approach in how we deliver our services. These days, it is possible for companies to access information from us a lot easier than they could in the past. We saw that through Covid. We have been doing some fairly fundamental thinking about our focus for the future.

We have more flexibility in our capital budget, because we generate significant amounts of capital income, and we have capital assets that we can realise over time, which can help to plug some of the gaps.

The Convener: Of the five targets from last year, you exceeded the capital investment target. The target was £380 million but £620 million was realised. How did that come about? How was it achieved?

Adrian Gillespie: Our annual targets can be very much impacted by one or two large projects coming in that were not in the pipeline at the beginning of the year. Sometimes, we can substantially exceed our annual target. Capital investment was one of those. Perhaps Alan Maitland would like to say more.

Alan Maitland (Scottish Enterprise): There is not always a direct correlation between budgets and the achievement of the targets. Capital investment is an example. As Adrian Gillespie has said, a few chunky things came through in that year that meant that we exceeded the target quite substantially. Partly off the back of that, we will increase our targets for that measure in this financial year.

The Convener: I have another question before I let other members come in. I was going to ask if you will have to do more with less, but you have said that you will have less and that you are trying to change how you do things. What timescales are you working towards? There are real-terms reductions and inflationary pressures across the whole sector, so is the budget that you have been allocated sufficient to make the cultural and structural changes that you are looking to make?

Adrian Gillespie: We have already started down that path, and I have mentioned some of the measures that we have taken around efficiencies so far. We have secured buy-in from our board, ministers and key business contacts on the rationale around having a national economic development agency that is focused on economic transformation. That is where we should be. The corporate plan will launch in November, which will be the signal for us to be off and running using that approach.

I want to mention financial transactions, because that is critically important. Our financial transactions funding is uncertain, and it funds almost all of our early-stage investment work. That uncertainty is on our radar at the moment. If there were not to be financial transactions funding available, that would eat into our capital budget. However, given the levels of investment that we currently undertake in the early-stage market, we would not be able to absorb that into our capital budget.

The Convener: I turn to South of Scotland Enterprise. You have a more significant reduction in budget of 8.9 per cent, with a more significant reduction in your financial transactions budget. What impact is that having on the organisation, and how do you anticipate managing that reduction?

Jane Morrison-Ross (South of Scotland Enterprise): We had been expecting some of the cuts from early indication, so we took direct action in preparation for this year's budget and coming years' budgets. We froze our head count; we started to look at organisational structure; we have done a lot of work on our culture; and we have been focusing on processes and trying to make those as lean and effective as possible. The majority of our staff are front line and out working directly to provide support and expertise to stakeholders, clients, communities or organisations.

Further budget reductions will have an impact on what we can deliver. Currently, we have staff on the ground working directly to increase the number of start-ups from women and young people across the south of Scotland. We cover areas from Eyemouth to Stranraer, which is a significant territory, and that is why the majority of our staff are front line. We have been working to develop how to use our financial transactions more effectively and efficiently. In years 1 and 2, we struggled, because we were not set up in a way that made that as effective as possible.

We are very focused on the productivity piece. The Organisation for Economic Co-operation and Development report that was published last week showed that 80 per cent of the productivity increase in Scotland is coming from remote and rural areas—hashtagged #RuralPowerhouse. There is huge economic benefit and opportunity from harnessing the small and medium-sized enterprises that we have across more rural areas.

If we suffer further cuts, we will have to look at how we deliver. We have been doing that to a certain extent, which is why we have partnerships with Zero Waste Scotland, the Scottish Funding Council, Scotland's Rural College, CivTech Scotland, Censis and a number of other organisations, because it means that we can deliver more with less. However, it gets difficult to do that after a certain point.

Perhaps Anthony Daye would like to come in on financial transactions.

Anthony Daye (South of Scotland Enterprise): Due to the challenge that we have had on the demand side in terms of organisations coming to us, we have really publicised FTs. In the past few days, we have launched a business loan fund for the south of Scotland. It is not dramatically different from what we have had in the past two years, but we are pushing it out to our customers and trying to get them to see that there is money there. Alongside that, we have emphasised the other available finance that is out there—the British Business Bank and X, Y and Z other funds that we can bring into play in the south of Scotland. That is the market that is available for pushing financial transactions.

Adrian Gillespie from Scottish Enterprise talked about resource. Our challenge is that, from the start, we have always had a low baseline, but we have not let it stop us. As Jane Morrison-Ross mentioned, we have tried to take proactive measures by making our head count lean straight away and focusing on how we can work in partnership to bring in other funds to supplement what we have.

Gordon MacDonald (Edinburgh Pentlands) (SNP): I have a quick question for Scottish Enterprise. You spoke about your grant-in-aid funding, but what about the funds that you raise from business income? If my understanding is correct, you brought in £75 million in the previous financial year, which is about 25 per cent of your total funding, and you brought in £600 million over the past five years. How was that generated, and what is your forecast for this year?

Adrian Gillespie: That is generated from a number of sources. One of the main sources is exits that we make from companies that we have invested in, which is often 10 or 15 years prior. When the investment is realised is outwith our control, because it depends on the company either going public or being purchased. That can happen with a week's notice, so it is very hard to plan for that.

That is not additional income; it is factored into our grant-in-aid forecast. It is not a windfall. However, last year, for example, we had a financial year in which we had more than £106 million in income from companies that we had invested in—that happens some years. That was way more than we had forecast, and it was principally due to two exits that we had not foreseen. That money is returned to the Government. Other sources of income are property transactions. We have a property portfolio, and we sell that property and realise income from it.

Other sources of income include European Union funding, which was resource funding. Another pressure on our resource income is the fact that we do not have EU funding coming in any more, and that was a big funder of our innovation activity. We have resource funding income from some of our exits, as well, but a clarification of Treasury rules means that that is much lower now than it was in the past. The pressure on the resource budget comes from a number of areas.

What is our forecast for this year, Alan?

Alan Maitland: The £75 million that Gordon MacDonald quoted includes our subsidiaries, with the main one being the Glasgow Science Centre. The forecast for this year is £77 million, but that excludes our subsidiaries. The subsidiary income is relatively small in the overall scale of things, so it is a broadly static picture.

Murdo Fraser (Mid Scotland and Fife) (Con): I have one brief supplementary for Mr Gillespie, given his answers to the convener. You talked about measures to reduce costs. Are you also looking at your staff complement, and might that include redundancies, for example?

Adrian Gillespie: The major fixed cost is our salary cost so, yes, we will have to reshape and refocus the organisation, as I talked about. That will not involve redundancies; it will be done through natural retirements or people leaving the organisation. The age profile of our organisation is such that a substantial number of people will retire over the next few years, which will allow us to reshape, but it is also a challenge in terms of retaining skills and experience in the organisation.

The Convener: Before I bring in Ash Regan for questions, I will give our witnesses from Highlands and Islands Enterprise an opportunity to comment on the budget reduction. The proposal is for a reduction of 4.8 per cent, which you will have to manage as an organisation. How are you going to do that?

09:45

Stuart Black (Highlands and Islands Enterprise): Thank you, convener, and thank you for the opportunity to come along today. Our resource budget takes the biggest impact. Many of the issues that Adrian Gillespie and Jane Morrison-Ross have talked about will also affect us. A lot of our work is driven through local community engagement, and one thing that will be affected is our ability to work with communities at local level through development officers. That is the sort of project support that many communities want. We will have to try to bring in other funding to supplement what we do, for example through community benefit from wind energy projects in some areas.

Another area that we will have to reduce is our management and leadership training, which is a very effective way of supporting businesses—it can often be as effective as giving grants for capital equipment, for example. We often run those in a complementary way. We also provide quite a bit of advisory support, both directly through our team and by buying in support from the private sector. We are looking at that as well, unfortunately.

Graduate placement programmes are another thing that has been very successful. Obviously, we want to support the recruitment of young people into our region and we have used graduate placement. Unfortunately, we are looking at that, too, although in that case we have been able to use some funding through Argyll and Bute Council through the shared prosperity fund to supplement our resource. As SOSE is doing, we are trying to supplement our resources as much as possible.

On the staffing side, similarly to what Adrian Gillespie said, it has been more a question of vacancy management and looking at every vacancy that we have. We generally try to hold vacancies for up to six months to make a saving on the post. We are also recruiting a younger cohort of staff, bringing in graduates and less experienced people to replace more experienced people. Generally, that is a lower cost, but it also brings new life and enthusiasm and new ideas into the organisation. Those are some of the things that we are doing.

On the capital side, a bit like the other organisations, there is less concern about that. On capital, we try to generate our own income from the sale of assets and property, but we also sometimes generate income from share sales in companies in the way that Adrian Gillespie referred to.

We are also trying to bring in other sources of funding—principally that is private sector funding but it is also other Government funding. For example, some funding is available through green freeports. We are trying to supplement our budget as much as possible.

We use financial transactions much less than Scottish Enterprise, but they have become part of our portfolio. The issue with FTs, however, is that, if there are losses, that scores against our revenue budget. That will make us quite cautious about FTs in future because, if they go bad, they have to be paid for from a declining resource budget.

That is a summary from our side. Nick Kenton may want to add something.

Nick Kenton (Highlands and Islands Enterprise): I have nothing to add; you have given a very good summary.

Kevin Stewart (Aberdeen Central) (SNP): You have all talked about the pressures, and Ms Morrison-Ross talked about partnership. This is a very brief question for you all. How do you share resources? What do you do to co-operate and collaborate with each other to ensure that costs are lowered?

Adrian Gillespie: We do that in a number of ways. One of the main ways that we collaborate is through our enterprise information services—our back-office and information technology systems. We share that service with Skills Development Scotland and we are looking at how we can share it more broadly across the public sector. That makes significant savings, but we are looking at how we can make savings across that shared service as well and how we can have more shared services for things such as human resources systems.

We collaborate on all sorts of projects. Stuart Black will probably talk about Sumitomo. We invest in companies together. There are HIE companies—Orbital Marine, for example—where we have taken an equity position. We try to share our resources on the ground where that makes sense. Clearly Scottish Development International is one of our national services, and we undertake that activity on behalf of all the enterprise agencies. The same applies to the Scottish manufacturing advisory service and some of the other services such as investment funds. We collaborate in a number of operational and back-office areas.

Jane Morrison-Ross: It is worth adding that, as well as our teams working directly together and meeting regularly, Adrian Gillespie, Stuart Black and I meet regularly—together and individually as well—to ensure that strategically we share as much information as possible. We do not always necessarily agree, but we always get to a consensus and try to look at what is most effective nationally by working together.

Stuart Black: One of the most important things that we are doing is the business support partnership. That is where the agencies collaborate with other parts of government to provide a joined-up service for businesses, so that it is not a confusing landscape and there is a one-door approach. We are doing a lot of innovation in that space. There is quite a lot of collaboration between agencies. In my experience, and I have been working in the area for a long time, collaboration between our three agencies is probably the strongest that it has ever been.

Kevin Stewart: Maybe the witnesses could supply us with more detail on the shared backroom costs, because it would be my expectation that many of the things that you are doing could be done on a shared basis rather than each organisation doing something separately. It would be good if we could get further details on that shared agenda on backroom costs.

The Convener: The committee would be happy to receive that in writing.

Ash Regan (Edinburgh Eastern) (SNP): Good morning to the panel. I want to pick up on Adrian Gillespie's point about how we support companies to scale up, because we know that that is an issue. In the recent programme for government, there was an expectation of a greater role for the enterprise agencies in trying to reduce barriers to companies so that we get more successful companies scaling up.

Jane Morrison-Ross: That is an interesting area and one where we are sharing a lot of knowledge. For us, the focus is on scaling up and scaling deep, and those are not mutually exclusive. In the south of Scotland, 87 per cent of our companies are SMEs and microbusinesses. We work with entrepreneurs to increase the number of start-ups. We have a team looking at pre-start-up, and then we look at scaling up—absolutely—scaling deep and then scaling out, which is scaling out internationally. That is the entrepreneurial pathway that we have set up, and it is endorsed by Mark Logan, which we are very pleased with.

A huge amount of work is focused on getting companies to that stage. That is why we have specialist teams who work with women, young people, underrepresented founders and non-neurotypical founders. We are looking at specific opportunities that fit into the national innovation strategy, the space strategy and so on, so that we can harness those and see them increase as much as possible.

We also run Business Gateway in-house in the Scottish Borders. We have seen the numbers increase significantly since we have taken on that service, because we have been able to wrap our added-value services around that. The OECD report highlights the strong potential of rural areas in that space as well.

Adrian Gillespie: This is core to what we do. Our purpose is to help companies to innovate and scale. Scale-up companies are of various sizes. There are very early stage high-growth scale-up companies, many of which come out of our universities. We have had a record year in terms of spin-outs from universities and, through our investment funds, we are the second most active investor in the United Kingdom in early stage investment markets. A lot of investment activity goes on, and that creates a helpful investment ecosystem, because one of the biggest barriers to scaling up is attracting the right investment funds. We not only supply the funds; we advise companies on the best way to structure their funding and where they might find sources of funding, as well as being a source of funding.

We support technology and product development as companies evolve and their products evolve and as they move markets. When it comes to international markets, we help them with where their products might land best and how they might be best supported in those new markets, which could be through GlobalScots, for example.

We also help them with talent. For all companies, but for high-growth companies in particular, the attraction of talent is critical. We can help and advise companies on the culture that they create in their organisation, the structures that they might put in that would attract talent and the fair working practices that would attract a more diverse range of talent. We also have the talent Scotland service, which can find talent internationally.

We also help scale-ups with some of the challenges around scaling up, such as governance processes that they might need to put in place, system pressures that they might have and back-office support that will be important for them as they take their companies internationally. A whole range of support is available, and that is a big focus for us.

Ash Regan: Stuart, do you want to add anything?

Stuart Black: There is always a danger that everyone has said everything already. [*Laughter*.]

For us, access to finance is a key thing to enable companies to scale up. A bit like Scottish Enterprise and SOSE, we have internal expertise on that. We have people who have worked in finance.

One increasingly important thing is our work with the Scottish National Investment Bank, through which there have been a couple of investments in our region. One has been in Orbex, the space company in Forres, where we put in initial funding but then SNIB came in with a big chunk of funding, of about £18 million. SNIB acted as leader for a £40 million raise on that company.

Similarly, in the tourism sector, SNIB was active with Highland Coast Hotels—a group of hotels around the north coast 500—and invested £4.5 million. We work closely with SNIB to introduce companies and to ensure that it is part of the ecosystem that will support them. As Adrian Gillespie said, there is also lots of advice and support from organisations such as SMAS and the National Manufacturing Institute Scotland. Another thing that we have done that is quite successful is to support technology graduate placements for small companies.

A third area is management and leadership, where we have had a couple of very successful programmes. One is IMPACT30, which has been very good and is aimed at younger entrepreneurs. We have had a very high take-up of women on that course. We also have a programme called Pathfinder. To go back to Kevin Stewart's point about partnership, those programmes are funded as part of the Highland growth deal but, because they have been successful, we have rolled them out across our geography—we have seven local authorities in our area.

Those are some of the things that we are doing. I agree with both Adrian Gillespie and Jane Morrison-Ross on the importance of scale-up. We need to grow the Scottish economy by creating more successful mid and larger companies.

Ash Regan: I was going to ask about the relationship with the Scottish National Investment Bank, but you have covered that. However, I will ask the other two agencies whether they have a similar relationship. Is that relationship working well? Do you have the opportunity to direct companies to the right support at the right time?

Jane Morrison-Ross: We found that quite challenging initially, partly because of the level of maturity and scale of the companies that we support across the south of Scotland. The ceiling for investment is one that we sometimes struggle with. We have had one major investment, with IndiNature, which involved Scottish Enterprise as well as SOSE. We have a number that we are looking at now, but it is about trying to get them to a point where they are ready for the investment that SNIB will provide.

We have also struggled significantly with the equity versus debt investment model, which is why we have been looking at the British Business Bank and a number of other perhaps slightly more flexible routes to finance. However, we are keen to continue working with SNIB, and we have a very positive relationship with it. There is some great expertise in there that we draw on, but it is about getting to that tipping point.

Anthony Daye: For us, it is about maturity at the moment. We have a number of companies with SNIB but also with the Scottish Enterprise financial readiness team. We are referring them or seeing referrals; it is just about getting companies over that hurdle and getting them ready to receive investment. We have seen more of that in this year than we saw in the first couple of years, which were during Covid.

Adrian Gillespie: Similarly, we have a strong and close working relationship with SNIB. We meet every two weeks and we share our portfolio of companies that are coming through. We have a joint pipeline that we work on together, and we have jointly invested in a number of companies. Around half of SNIB's investment portfolio has been companies that we have invested in at an early stage, and 12 companies in our portfolio have attracted SNIB investment. For example, in the energy transition area, there are the north-east companies Verlume and Trojan Energy. In the space sector, a company called Krucial in Glasgow is getting significant scale-up funding from SNIB. That is after one, two and sometimes three investment rounds that we have done at the early stage.

The Convener: Colin Smyth and Brian Whittle have supplementary questions.

Colin Smyth (South Scotland) (Lab): I want to follow up on the point about partnership working. I am keen to get the panel's feedback on how effective regional economic partnerships have been so far. I will start with Jane Morrison-Ross, because my observation in the south of Scotland is that there is a very strong strategy and it is a very cluttered landscape but, when you look at the delivery, it is not always clear to me who takes the lead. For example, the very first action in the south of Scotland strategy is to

"Develop and deliver interventions to address immediate and longer term labour and skills shortages".

Then, under "Key Partners", it lists 11 partners that are involved. How do I assess whether that is being delivered when there are so many partners? It is not clear who is taking the lead on each of the interventions.

10:00

Jane Morrison-Ross: To answer the top part of the question first, our regional economic partnership is very strong and active. We recognise that we have two councils in our region, which makes it easier. We regularly meet and work with both of them, individually and collectively, and now outside the regional economic partnership as well, to plan intervention and collaboration.

The REP was the first to publish a regional economic strategy in Scotland, and it is very clear and direct. A lot of work goes on behind the scenes. Earlier this year—I am struggling to remember which month—a streamlining activity went on to focus key priorities for the pathway ahead. Housing, transport and skills were the three main areas that a lot of the other activities come under. There are now sub-groups with smaller memberships that are working individually and directly to take those forward.

There is a REP secretariat that manages the process, and we are seeing real progress, particularly on housing and skills. There was a meeting with a group yesterday including chief executives of colleges to look at skills pathways from school right through to tertiary education and employment across the south of Scotland. That was the first direct intervention planning meeting.

The model is maturing as it evolves, and we are learning and adjusting. It is a very interactive and iterative process. The model did not come fully formed, but we are seeing significant value from the partnership and the agreement right across the south of Scotland on the priorities that we collectively focus on. The approach allows for separation and diversity, and it allows us to focus on specific opportunities or challenges within the regions. That coming together right across the south is quite powerful.

Colin Smyth: Do other panellists have observations on regional partnerships?

Adrian Gillespie: There are some strong regional partnerships. Virtually everything that we do is in partnership and in many of our projects there will be a number of partners. An example is the Glasgow innovation accelerator, where the economic partnership that has developed across the region, mainly on the back of the city deal—the city and regional deals have forged a lot of very strong partnerships—has attracted significant funding from the Department for Science, Innovation and Technology, through Innovate UK. There is now a very strong partnership across the universities, Scottish Enterprise, Innovate UK and the local authorities, which is establishing a strong model for developing a strong innovation system. With Innovate UK, we will look to take that around the country to see where we can replicate it elsewhere. The regional partnerships are critical and, where they work well, they can deliver strong results.

Colin Smyth: Are there no issues at all? Is there a challenge with the cluttered landscape? Do you have duplication and two partners sometimes doing the same thing? Are you happy with the processes that you have in place to ensure that that does not happen?

Adrian Gillespie: I am happy with the partnerships. Stuart Black mentioned the business support partnership and the work that we have done to channel our support coherently and to remove duplication where it exists. Some work is going on at the moment on funds, because there are a number of funds and that can be confusing. It is not so much about the organisations; there are a lot of funds in the funding landscape that often do quite a lot of the same things, and that is what we are looking to consolidate. The other side of that is ensuring that the funds are focused in the right places where we will make the biggest economic impact. That is on-going work.

Stuart Black: From our perspective, the Highlands and Islands is a vast area. We cover 51 per cent of the landmass of Scotland, from Unst in Shetland down to Arran. We have a single regional economic partnership, and it reflects strong working, particularly between HIE and local government. Our regional partnership was very important in inputting into our new strategy, and we are now producing a regional economic strategy through the partnership.

Like SOSE, we have been focusing on a few common areas, particularly around housing, transport, digital connectivity and skills and labour availability, because that is the number 1 issue that businesses talk to us about in terms of their ability to grow.

I chair a group that has been set up under the regional economic partnership to try to accelerate housing provision in the Highlands and Islands, because that is one of the main things that is holding back the great opportunities that we have, particularly around renewables and activity in some of our new sectors. Therefore, I would say that our regional economic partnership is very strong.

On the question of duplication, the landscape in the Highlands and Islands is pretty simple. If you want to get business support, your first point of call is either HIE or Business Gateway. Between the two of us, we are often co-located. For example, a business will come into our office in Stornoway and find that the council staff are sitting right next to the enterprise agency staff. The same happens in Lerwick and in Kirkwall. Therefore, the duplication is not so much around activities. However, as Adrian Gillespie said, the funding landscape has got much more complicated. That is why we need things such as the business support partnership to navigate the confusing landscape.

That is also what my team does. We are there to help businesses. There are about 500 businesses and community groups with which we are engaged in a client relationship. Our job is to declutter and make it simple for businesses and communities to get the right support.

Brian Whittle (South Scotland) (Con): Good morning. Adrian Gillespie, you mentioned the role that Scottish Enterprise has with scale-ups and the importance of scale-ups. We are a very SME-orientated country. SNIB would say that it also has a role in scale-ups, and you talked about working in partnership with SNIB, so where are the lines of demarcation? How do you make sure that there is no duplication of effort? Is there a grey area around who should lead on that?

Adrian Gillespie: There is a clear demarcation on funding. SNIB is a bank and it supports funding. We do much more than that. We provide funding for early-stage investment, but we also provide all the support that I talked about—internationalisation, culture, workplace innovation, product development innovation—with SNIB providing the scale-up finance for that.

We both have an interest in the scale-up agenda, but on who provides the funding, we have a clear agreement that we will come in with funding in the early stages and the SNIB will support with scale-up funding.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I have a couple of areas that I would like to have a look at. The first one concerns the recent review by James Withers into the future of the skills landscape in Scotland. One of the recommendations in that review is that enterprise agencies should take on responsibility for supporting businesses with skills and workforce planning. It is noted in the review that that would require agencies to broaden their approach and it would therefore probably need additional resources. I have two questions for Scottish Enterprise. How would you approach that new responsibility if it was implemented and what changes would be needed within your organisation to deliver it effectively?

Adrian Gillespie: It is quite early to be specific about how we would deliver on that because there would be a whole process to go through, working closely with the Government, to understand how we would design that. We would need additional resources and skillsets to undertake that work. We have a strong reach into companies so it is feasible for us to do it. We would have to do that in partnership with Business Gateway, for example, as it has a reach that we would not have with the numbers of companies involved.

We are in discussion with the Government about how we might take that forward, but there is no certainty that that recommendation will come to us. If that were to be the decision, we would get into detailed planning about what it would mean, but we absolutely would need additional resources and skill sets to undertake that important piece of work.

Colin Beattie: Is it a logical recommendation?

Adrian Gillespie: There are a number of options about how it could be done and who could deliver it. I think that it is feasible for us to undertake that work although, to be perfectly honest, I am not sure that it is core to our skill set, which is why we would have to bring in additional resources. Therefore, having had those recommendations, it is sensible to look at and evaluate the options to see what the best way forward is.

Stuart Black: Skills used to sit within the enterprise agencies before Skills Development Scotland was created, and many of my colleagues have experience of working in a skills environment. Some of my senior colleagues came in as skills development advisers. Therefore, some people in the organisation have had a skills background. However, as Adrian Gillespie said, if the activity was to come to us, we would have to look at what resource came with it.

It makes some sense to have the business development agencies and community development agencies also leading on skills planning because, as I mentioned, many of the issues that community and social economy businesses and community groups are facing relate to skills availability. Some of it has to do with whether there are sufficient people and sufficient housing in a region, but some of it is about the skills that are being produced in the colleges and universities and whether they meet the needs of industry. Through our work with companies and community groups, we have a good handle on the types of skills that are needed.

On how we would approach such a responsibility, we work quite regionally. We have eight offices in the Highlands and Islands and that is a good way of engaging. For example, the Shetland office will interact with businesses in Shetland and it knows the skills demand that is coming through, so it makes sense to do it that way.

As Adrian Gillespie said, changes would need to be made within the organisation if we were to be able to take on additional work, but there is a logic to it and that is why James Withers made the recommendation in his report.

Colin Beattie: Leaving aside the mention of having some people with residual skills from a previous iteration of the enterprise agencies, I get the impression from both the responses that I have had so far that this would be a completely new bolt-on to the enterprise agencies as opposed to an extension of what is already being done.

Stuart Black: It is a question of degree. Often when we are dealing with an investor—Adrian Gillespie mentioned Sumitomo—one of the things that it is concerned about is skills availability. In the past, Highlands and Islands Enterprise could provide financial support for skills training; I can remember doing that 15 or 20 years ago and it is the sort of thing that we could do quite readily. However, we do not have people with the skills to deliver directly to businesses in-house; we would need to then bring in. There are elements of it that we could do quite readily but there are other elements that would need some additional skills.

Jane Morrison-Ross: We are doing parts of this already. It is so interconnected with the work that we are doing directly with companies across the south of Scotland. We regularly bring companies to round tables with investors and other partners, and we constantly hear about skills gaps and skills needs.

We have just taken one of our roadshows right across the south. I am out a lot directly meeting businesses, as are my senior team, and skills come up again and again and again. We are told, “If I could get welders today, I could fill so many gaps right across the south of Scotland”. Right across the sectors, from technology to hospitality, a lot of direct conversations and research are going on.

At the moment, we get together with partners such as colleges, universities and other providers, to look at how those gaps can be filled. We spent a lot of time talking to educational providers about additional needs across the sectors that we work with, and on the back of that work, we have seen new and innovative courses being set up, such as the Scottish Borders College and SRUC regenerative agriculture courses. They came directly out of industry needs.

We would welcome the opportunity to have a more formal role in that. It allows us to target interventions and resources effectively. Capacity is always a challenge and we would need additional capacity for that, but it would be enormously helpful to accelerate some of the things that we are doing already.

Colin Beattie: Maybe I am misinterpreting, but it seems that you are saying that you are already handling an element of workforce planning in the work that you are doing with companies, and that you might be giving them input on that.

Jane Morrison-Ross: It is probably less formal than that because at the moment we do not have a formal role to do that, but we get a lot of information, data and intelligence directly from companies and sectors, which we then feed back to the partners that are currently involved in providing those services. We are not stepping too far out of our remit. We are sharing knowledge and intelligence, but sometimes it would allow us to accelerate developing solutions that are needed on the ground now. Anything that short-circuits that process would be welcomed.

10:15

Colin Beattie: I will move on to the second area that I want to look at. The national strategy for economic transformation notes the importance of increasing the number of Scottish firms exporting, to drive productivity gains, and reiterates targets from the 2019 “A Trading Nation” strategy to grow exports to the equivalent of 2 per cent of gross domestic product. However, since that target was set, there have been changes and generally, there has been an increase in trade barriers. Several key markets are impacted. How are Scottish exporters faring in that context?

Stuart Black: You are right that the export environment is much more challenging than it was three or four years ago. That is partly because of Brexit, but the war in Ukraine has also impacted on ability to export and confidence in markets. We are, however, seeing exports come back, which is encouraging. We are noticing a growth in exports to the US and the far east, particularly among smaller companies in our region.

I go back to Adrian Gillespie’s point about joint working. A lot of that is supported through SDI and advisory support that it provides to businesses in Scotland and in different markets around the world. The relationship with SDI has been very important for that.

There is no question that exports to Europe were significantly affected by the Brexit trading arrangements. Companies are now getting used to those and working with them and that is why we are finding a strong rebound in exports, so I am optimistic about the market opportunities for Scottish exports and also the support and advice that is there.

We are also working increasingly with the UK Department for Business and Trade, and it is putting in some advisory support. “A Trading Nation” tends to focus on the top exporters who are already exporting, but we want to encourage a pipeline of exporters, a bit like we do with scale-ups. We need to have more scale-ups and more exporters. That is where the Department for Business and Trade is putting some advisory support on the ground, and I hope that it will do that quite soon in the Highlands and Islands. We were just involved in some consultation with the DBT that is designed to support exporters.

I completely agree that the figures show that export-oriented companies are more productive, pay higher wages and are more innovative and these are things that we want to encourage.

Colin Beattie: Earlier you said that small companies are exporting in your area. Does that mean that no big companies are exporting?

Stuart Black: No, I was focusing on the smaller companies. We have huge companies such as Walker’s Shortbread, which is famous throughout the world, exporting as well as whisky companies. The UK’s two top food and drink exports are whisky and salmon. Salmon is all produced in the Highlands and Islands and the bulk of the value-added high-end whisky comes from our region. Bigger companies are exporting, but the focus of our support has tended to be and needs to be on encouraging the SMEs to grow their exports and become bigger companies, as we have been discussing.

Colin Beattie: Is that successful?

Stuart Black: The picture is improving, yes.

Jane Morrison-Ross: Stuart Black has said a lot of what I would have said. We have been ramping up the work that we have been doing and we have had good engagement with SDI colleagues who have been working with us directly on things such as the launch a couple of weeks ago of our natural capital investment guide. Luckily, one of the cabinet secretaries joined us for that. We also had both SDI and DBT come to meet a number of senior SOSE colleagues last week to discuss exactly how the support landscape will work, how the two things can dovetail and where the direct interventions are available.

We also have a number of larger companies, including salmon and whisky, in the south that are now exporting, but, like Stuart Black, we are looking at how we support smaller companies to develop export strategies and get to new markets. We are seeing signs of recovery and new organisations coming through with products, including some established ones, that are explicitly for the export market, which is interesting. Signs of recovery and some good support are coming through.

Adrian Gillespie: My experience is similar to that of the other two agencies. Exports rebounded quickly after Covid. We returned to pre-Covid levels the following year and we saw increases of up to £41 billion last year, so we have seen a healthy rebound. We have been pleased with the results that we have seen in our export targets, with £1.8 billion of additional sales supported last year. That was ahead of our targets and we are working in a strong pipeline of company opportunities.

Earlier, I talked about focusing on the big areas of opportunity. We have already implemented much of that and we see in our pipeline that, whereas the number of exporters is not increasing as much as we want, the average company export value of those exports is increasing. There is more work to be done. While the results are pleasing, we need to go much further with exports because they are an important link to productivity.

Things have settled down. Additional resource is required for some markets, particularly in Europe and particularly in some sectors, such as food, for example, where labelling is important. A lot of companies have adjusted to that but more work is required for it to be undertaken. However, it has settled down and the picture is improving. The latest results that we have seen indicate that we are growing our exports faster than the rest of the UK, so there are encouraging signs there.

Brian Whittle: I want to discuss the differences in remit and focus between the enterprise agencies. Perhaps I can come to Jane Morrison-Ross first on this, as the south-west is an area that I have more of an understanding of. It has regional challenges, a low-wage structure and economic inactivity, particularly as a result of rural-to-urban migration. Adrian Gillespie has said that the squeeze on the budget will narrow the range of businesses that Scottish Enterprise might focus on. Is there a danger that squeezing the budget will not only have an impact on the businesses that you focus on for support, but, geographically, lead to a bigger squeeze and greater inequality between agencies?

Jane Morrison-Ross: It will not help with some of the challenges that we are facing just now, but we are determined not to have parts of the region without that focus. As far as the south-west is concerned, Stranraer provides a great example. Every couple of weeks, I work out of the town—members of the team work out of a small office there, too—and we are very engaged with the council's plans for regenerating the waterfront, which was secured partly through levelling up funding. We are also working with a number of potential inward investors on a new opportunity just outside Stranraer that, I hope, will bring a new sector and new jobs directly to the area and which will build on the industrial and engineering heritage that comes from the shipping there.

It is not always easy to have the geographic coverage and spread that we need. A lot of the value that we deliver comes from the expertise of the people on our team; indeed, some of our communities representatives—the enterprise and communities team members—work with communities for 10 months to get them to a stage where they have, say, a place plan, a funding bid or a concrete strategy for community-owned energy transition. However, that can take months, not weeks.

As for the businesses that we work with, that intellectual capital—that expertise—is sometimes as valuable as direct funding. As far as I am concerned, therefore, we have to protect that front-line delivery. If we have to make additional cuts, we will have to look at where they will come from, but I do not want to decrease the service that we provide to companies and communities across the south of Scotland. That has to be sacrosanct.

Did you want to add anything, Anthony?

Anthony Daye: No. I have nothing to add.

Stuart Black: In terms of our remit and focus, we are very geographically oriented. We have, as I have mentioned, our eight area teams from Shetland down to Argyll. For our budget, we have a resource allocation model that puts about four times the per capita spend into the Outer Hebrides, say, than it puts into the inner Moray Firth around Inverness. We are therefore conscious of deliberately supporting the more fragile parts of our region. We also have our area teams on the ground, which are delivering locally both to communities and businesses and which we would certainly want to protect.

How does our remit differ? We definitely focus on the different areas in our region to ensure that they are all contributing to a successful outcome. After all, we do not want to have a booming Inverness and a declining Outer Hebrides or Orkney, so we try to make sure that the resource is spread around the region.

That is not to say that we will not take up any big opportunities that might arise in the inner Moray Firth, but under our remit—and this has been the case ever since the Highlands and Islands Development Board was set up—we have to focus on the more fragile and remote parts of our region. In those areas, we put in extra resources and try to have more boots on the ground and ensure that we retain that support in the communities.

That sort of work is something that we, like Jane Morrison-Ross, will continue to do, because I do not want us to retrench and become a very centralised organisation. That would be the wrong thing to do. We have to support our more remote and fragile communities, because they are the ones that are suffering significant economic disadvantage. According to the recent census figures, there have been some big declines in the population. However, we also have huge opportunities in those areas, particularly in renewable energy but also tourism and other sectors such as food and drink, and we want to ensure a balance between focusing on opportunity and supporting fragility.

Brian Whittle: Adrian, how are you, from a central position, going to ensure that, as budgets get squeezed, you do not just pull towards the central belt?

Adrian Gillespie: We have a very strong regional focus, and each of our leadership team has a regional responsibility for partnerships and senior engagement—for example, engagement with local authority partners.

However, we are very different organisations—that is why there are three of us. We have different remits, and we were established for different reasons. Scottish Enterprise, for example, has a much more international focus in its operations; indeed, we are all across the world. We also have a different funding model—I mentioned the income that we generate, through, for instance, the activities that we undertake in internationalisation and investment. Per head of population and business, we are not funded as well as the other organisations, so we cannot deliver the same service. The others have been put there and that particular funding model has been implemented for a reason.

We just have to make the best use of the funding that is made available to us. If you look at what has been delivered—the 85,000 jobs over the last five years, the £600 million of income that we have returned, the £2.5 billion capital investment that has been encouraged and the £8 billion of export sales—you will see, I think, that we deliver good value for money. We do have a different focus, but I should say that where we have common aims, we work very, very closely together, so I think that the system works.

I would certainly protect the numbers and reach of our international colleague base, because we deliver a huge amount of value for that investment, and I would also be looking to protect our front-line services, whether they be at international level or part of our engagement across the country. Yes, we are all different, but we are different for a reason.

The Convener: Did you want to ask a supplementary, Colin Smyth?

Colin Smyth: I just follow up on that point. For its recent inquiry into the future of our town centres, which is a hugely important issue for our communities, the committee went to Dumfries and looked at a project partly funded by South of Scotland Enterprise. Because of its social aspect, the project had a housing element, although I would argue that housing is now a big economic factor. Would it be fair to observe that if I, as someone who represents the south of Scotland, went to Ayr, Lanark or all the other places that are covered by Scottish Enterprise rather than South of Scotland Enterprise, I would not be able to see those same types of projects being supported? Is it the case that, because you do not have that remit, you do not invest in those projects? If so, is that not a gap in your remit?

Adrian Gillespie: I do not think that it is a gap, because local authorities have the remit for town centre investment. We do not invest in town centre streetscaping or public infrastructure—that is not what we are for.

Colin Smyth: The project that I am talking about was a retail scheme with an element of housing to bring people into the town centre and boost that economy. It was very much an economic project, but clearly it falls outwith your remit.

Adrian Gillespie: But, taking an example that you mentioned, look at the number of jobs that we have created in the Ayr area. I am thinking of the 575 jobs at Mangata Networks in Prestwick; the 300 jobs secured at DSM in Dalry; the aerospace innovation centre and so on. We are very active in those regions, but in the areas that fall within our remit and for which we are funded.

I mentioned the funding model. We do not have the funding available to make the kinds of investments that you are talking about—and, in fact, we would not get the same returns under our remit, which is all about scaling companies and creating jobs, that we would get if we put our money in that direction. As I have said, there are local authorities that have that remit.

I should say that we do invest heavily in cities under our innovation ecosystem remit, which spreads out; indeed, I have already mentioned the jobs that we have created locally in that area. In short, we are very active, but we focus on where we feel that we can add something.

10:30

Colin Smyth: I have a brief follow-up on the revenue side of things, although I know that my colleague has a question on losses for companies.

This question is probably for Jane Morrison-Ross. Coming back to what has been said about the challenges with the finances, I note that one of the observations that businesses, social enterprises and other third sector organisations make at the moment is that, when they approach South of Scotland Enterprise, they find that it has no revenue left. In fact, I hear that phrase all the time.

Perhaps this is more of a question for Anthony Daye, because the issue might well keep him awake at night. Is it fair to say that your budget is such that you are not overcommitted as such but that your commitments are pretty much already in place? Are you unable to directly support as many businesses over the next couple of years, simply because your revenues are already significantly committed?

Anthony Daye: Budgets definitely keep me awake pretty much every night, given the challenges that we face. I would agree with you there.

You have outlined our position with regard to revenue, but I should say that it is a position that we started with. As we have said, we had to undertake a rapid prioritisation exercise in February last year; we started with quite a low baseline, and things have remained that way. The kinds of organisations that you have mentioned generally look for staffing, which generally is resource. We are quite tight on staff, and then there are our fixed costs and certain strategic projects that we initially invested in. To try to counter and mitigate the situation, we have sent our staffing complement in to work with the companies in question. It is not a one-for-one substitution—and it is not exactly what is wanted—but the skills that our staff have show them how they can progress.

It is the case that companies come to us, looking for resource. As with the other agencies, things are incredibly tight, and if we were able to move capital to resource, it would be really helpful for us as an agency, as I am sure it would be for the other agencies.

The Convener: Brian, do you want to ask your question about losses now? At this point, I must ask all members to be brief, as I have other members who wish to come in after this.

Brian Whittle: Thank you, convener.

I was going to ask how you manage the risk of investment. With any investment, there is a risk, but because you are risking public funds here, you fall between the two stools of being risk averse and overcommitting. You know that, if something goes wrong, we are going to jump all over you, even though it is part of the deal. The question is: how do you manage that risk? Will squeezing the budget make you more risk averse, given there is less funding?

Adrian Gillespie: I will begin by touching on a point that was raised in response to the previous question and which is relevant to this as well. One of the challenges with budget planning is the multiyear element, which can be difficult in this climate. After all, companies do not work within the same annual budget system that we have, so making a commitment for a number of years can be challenging for us in this environment.

However, I am also aware that many of those companies might be watching this, as indeed will many of our colleagues, so it is important to send a clear message that our ambition for the economy has not changed and that we will always find resources for good projects that stimulate economic growth. I do not want our people or the companies with which we work to think that we are saying, “Don’t come and speak to us” or “Don’t develop new ambitious projects”. We will find the funding somehow.

That is relevant when it comes to the issue of risk, because anything that gets written off has to come out of our resource budget. As a result, we are very much focused on what might come out the other end of some of the investments that we are making at the moment, because if they fail, that money will come out of what is a scarce resource budget. That said, we do operate at the risky end of the market; the projects in question are still at an early stage, and we do not expect all of the investments to go well. After all, if they were all going well, it would show that our appetite for risk was not high enough.

We have things about right at the moment. Many of the losses that will feature in our accounts this year were investments that were made many years ago and which will have delivered quite significant economic impacts over that period. It is not as if the money was not well spent.

Moreover, some of the losses can be write-offs made to stimulate economic growth and to ensure continuity of employment. If a company owes us a debt and gets into difficulties, we will never get that debt back; however, another company might come in and take over their people and operations, and in those circumstances, the debt might be written off. The aim might be to reshape our impact, but it will still show as a loss. As I have said, I think that we have things about right at the moment with regard to our investments.

You should also bear in mind that we invest alongside the private sector; we do not make these decisions on our own. We match the risk appetite, but we can allow that sector to go further—and to be a bit riskier, I guess, in how they spread their investments, as we can see in the investment funding that has been leveraged in. Over the past 20 years, £2.3 billion has been leveraged into the system. I think, therefore, that we are about right in this respect.

Gordon MacDonald: Good morning. I have an open question for everybody. Earlier this year, the Scottish Government established the new deal for business group, which wants to examine four key areas: economic conditions, economic performance, the business environment and the transition to a wellbeing economy.

Given that each of your agencies has a close working relationship with the business community, how will you support the Government’s aims and improve the working relationship between industry and the public sector? That is a nice general question. Who wants to go first?

Adrian Gillespie: I am happy to do so. We have regular conversations with the Scottish Government team that is taking forward the new deal discussions. We can play a bigger role here, and we have offered to perform that role. In other words, can we be more of a sounding board when policies are considered at an early stage? Can we use the trusted relationships that we have with businesses to get trusted and frank feedback on how those policies might play out?

I would also like to turn that around. How can we use our relationships to develop supportive policies that might help businesses to grow, rather than just be a guard for policies that might cause friction? We can do much more. Given that the Scottish Government is increasing its resource in this area, we have said that some training for our people in how to have those conversations around policy development could be added to the mix.

Jane Morrison-Ross: A few months ago, we brought Dr Poonam Malik down to a round-table event with local businesses. We have close working relationships across the sectors that we work with in the south of Scotland. We frequently hold round-table meetings to bring together the public and private sectors, and investors. We have done that in natural capital, in regenerative agriculture, in space innovation, in supply chain innovation and in a number of other areas. For us, it is an on-going iterative model.

We are keen to be a facilitating organisation. We want to take messaging directly to the companies that we work with; as Adrian Gillespie said, we also want to take messaging from those sectors back to representatives on the new deal group and other Scottish Government colleagues to feed directly in when we hear important things.

Stuart Black: We hold regular community and business engagement sessions throughout our geography at least once a year, which are attended by between 30 and 50 businesses and social enterprises. We also have quite good sector groups, especially on tourism but also on food and drink and other sectors.

I agree with Adrian Gillespie that it should not just be a case of, "Here's what the Government thinks. What do you think of that?" We should also be able to feed up ideas about how to improve the economy from the grass roots.

I want to go back to the risk question. We have a formal approach to risk. Every year, we take risk appetite statements to our risk and audit committee. We get those agreed and we then make sure that all members of our team are aware of them. As Adrian said, we are in the risk business, but it is a question of being risk aware, not risk averse. I hope that that helps.

We engage with businesses. As I mentioned, we have between 500 and 600 client-engaged businesses and communities in our geography. That is a big wealth of businesses for us to work with in relation to the new deal for business group. We are really keen to engage.

Gordon MacDonald: Thank you. I have three specific questions, one for each of you.

Jane Morrison-Ross, in your submission you highlighted that you have invested more than £10 million in 139 enterprises, which is about £75,000, on average, per business. What is the importance of those investments in SMEs? What impact do they have?

Jane Morrison-Ross: The impact is massive. That is probably the simplest way of putting it. Sometimes, some of the smaller investments are absolutely transformational and are catalysts for growth, product development and exploration of new markets. Some of the smaller companies that we work with have transformed as a result of those investments.

An oft-repeated example is Carbon Capture Scotland, which is a company that we have provided expertise to in the form of Dr Martin Valenti. At the moment, we are working with Aqualution in the Scottish Borders, which already has an international marketplace but is on the cusp of developing a new product that will completely revolutionise the hydrogen supply chain. Those small interventions are so important—they are transformational.

Anthony Daye: It is inspiring to see. Just after Covid, we invested in a small enterprise that basically made T-shirts, to start with. We ended up giving it two extra lines and the value of the business went up from a few thousand pounds to £40,000 or £50,000. Given that it provided three or four jobs in a small community, that made a massive difference. At the other end of the scale, at Scottish Enterprise, we leverage up—we might put £1 million or £2 million in against £18 million or £20 million projects.

As a rural agency and a place-based agency, it is the smaller projects that give us the inspiring stories, because we know from meeting the people involved what difference our input makes. The personalised nature of the story that we get back from them shows the impact that we made. They are our clients, and they tell us that it has worked.

Gordon MacDonald: My second question is for Adrian Gillespie. In your submission, you say:

> "The way in which we work with companies will change ... moving away from offering a high volume of smaller grants to businesses."

Given what we have heard about the importance of investing in SMEs and identifying those that can be scaled up, why are we cutting grants to small businesses?

Adrian Gillespie: That is not really a change—that has been the direction of travel for a number of years. Our evaluation says that such small amounts of funding do not make the same impact as the more transformative elements. It is a question of making the best use of the funding that we have in terms of economic impact.

Quite often, though, we get feedback that says that, for our smaller companies, our people make the biggest difference. For an SME, for example, having someone in Japan who can advise it on market entry in Japan, an investment adviser who can advise it on how best to structure its finances or an innovation adviser who can help with its product is like having an extended part of the team. That can be worth a lot more than, say, a £25,000 grant for marketing development, which is the kind of support that we might have provided in the past. Again, it is a case of understanding where we make the biggest difference and channelling our funding in that direction.

Gordon MacDonald: A YouGov survey that was carried out earlier this year—I accept that these numbers are UK-wide—found that 40 per cent of SMEs had to stop or pause an area of their business due to a lack of funding, and that they were struggling to get funding from the banks. If Scottish Enterprise is not investing in, or is reducing its investment in, SMEs, where can alternative funding be found?

Adrian Gillespie: I make the point that all the investment funding that I have mentioned has gone into SMEs, but SMEs that are growing quickly. That has been investment funding, not grant funding. Through that, we have managed to leverage in additional sources of finance. We always look to do that; we look at how we can be not just the funder of first resort. We should be the funder of last resort, and we are, but we will work through the funding options for companies that have growth projects. For companies that have strong growth projects, we find a way in the end, but we would not be the funder of first resort in those circumstances. We should not be.

Gordon MacDonald: Okay. In its submission to the committee, Highlands and Islands Enterprise suggested that, over a 10-year horizon, its activities will increase tax revenue by two and a half times. Stuart Black, can you tell us how you arrived at those numbers?

Stuart Black: Yes, and I might get Nick Kenton to come in on that as well. We took three years of our budget and looked at what that generates. You will see from the figures in the report that we generate around 1,400 jobs. We then use an average wage for those jobs to work out the tax from each of those jobs. We multiply that over a 10-year period. We also include some corporation tax, albeit that that is relatively modest. The main impact is the jobs that we create.

You will also have read that we are a fair-work compliant organisation. We are looking to drive up wages. Low wages were mentioned as an issue in the south of Scotland. The situation is similar in the Highlands and Islands. Largely, it is a wage-driven equation.

Nick Kenton: This was a piece of work that we did in response to a request from the Government. It was done in fairly short order, so we do not pretend that it is correct to the penny, but we think that it gives a sense of scale. The return is so positive because most of our interventions with third parties are one-off spends. That could be a grant of £500,000. If that creates or retains, say, 10 jobs, those jobs will be in place for 10 years, so we get a good leverage effect.

10:45

When we calculated the figure, we were keen to include our total budget—not just the grant budget, but all our overheads and the legal fees that surround that—because it is not possible to deliver the grant without all those supporting costs being met. We took our total budget in order to give a fair reflection of the return and, as Stuart Black said, the figure is around a 2.4 multiplier. Most of the return—90 per cent of it—is based on third-party jobs. There are other bits and pieces, but that is the key bit that generated the return for us. Although that is a high-level piece of work, we are confident that it gives an idea or sense of scale.

Gordon MacDonald: Given the importance of that reflection, is that something that South of Scotland Enterprise might consider?

Anthony Daye: We took on board some of the work that HIE has done. We, too, had that return to do. Our level of maturity as regards the calculation is much earlier, given our age, but we take a not dissimilar approach. Some of our insights people are looking at how we will calculate that in the future. We work closely with Nick Kenton on those things to make sure that there is commonality across the agencies. We are at a much earlier stage. Looking over the piece, we do not have the historical trend that HIE might be able to look at and make comparisons against. Although we are at an earlier stage, we have a similar feeling and approach.

Jane Morrison-Ross: To add to that—that work is a good example of knowledge sharing and working together—we also have a small team internally that is looking at how we capture and measure the harder-to-quantify impacts. It is looking at the wellbeing interventions, the social return and the generational return with some of our longer-term investments with communities such as Langholm or Newcastleton. We are trying to find ways to quantify the traditionally unquantifiable impacts that we have as an agency, because we absolutely have that tripartite focus on people, prosperity and place.

Gordon MacDonald: I put the same question to Adrian Gillespie: will you use that metric?

Adrian Gillespie: Our teams collaborate on pieces of work like that, and their methodologies are similar. Our impacts are similar as well. Earlier, I mentioned our five-year impact figure: £900 million of income tax was raised over five years. We follow the same methodology here. It is imperfect—assumptions are always made in such situations. The model will develop, but it is already firming up into a pretty strong model.

Murdo Fraser: Good morning. I want to follow up Gordon MacDonald's line of questioning and look at the question of the multiplier effect of investment in the enterprise agencies.

Stuart Black, you highlighted that issue in your submission, which was interesting. We are about to enter a challenging budget phase, and we know that there are issues with the budget and that the finance secretary has a lot of challenges to try to address. If the finance secretary decided to spend money to support business, it could be spent in a number of ways, for example, reducing the tax burden or reducing business rates. It could be spent on the skills agenda, through Skills Development Scotland, it could be spent on infrastructure improvements such as dualling the A9 or constructing ferries, or it could be given to the Scottish National Investment Bank or enterprise agencies. What is your pitch? Why should the money go to you as opposed to any of those worthy causes?

Stuart Black: That is an excellent question. It relates to the question that came up earlier. Money invested in our organisation and in the enterprise agencies as a whole has a stimulating and multiplier effect on the wider economy, which is quite measurable. Colleagues mentioned the direct benefits. When we go out and visit companies, they tell us about the impact that our assistance has had on their ability to grow. That is not to say that infrastructure does not feature—indeed, it features heavily in discussions, particularly with island communities, where infrastructure is key and roads infrastructure is fundamental to getting goods to market and bringing visitors into the region. However, the direct investment into businesses has that multiplier effect. Our tax take does not allow for that. We have not done as much work on the multiplier impact as we could.

Over time, we have done some work around strategic investments that we have made in different places, and we can see that the impact is significant at a community level, particularly in island communities. Often, an investment in the central belt will have a huge ripple effect right through the area and the impact can dissipate. But if you invest in a big project in the Highlands and Islands, that will result in a huge confidence boost for that particular community. That can be seen in the investment in the brand-new port facility at Stornoway harbour, with cruise ships already booked in for next year. We have also supported the development of tourism businesses to support that whole new sector coming into the Hebrides.

The impact on the economy that we have with direct support to businesses and to communities in fragile places is huge. That can be seen in the recent investment in Yell in Shetland, which resulted in a community now owning its own business park, wind farm and small port with fishing. That has been transformational. That sort of impact is tangible and noticeable but, in other spend areas, the impact is not quite so direct.

Adrian Gillespie: Similarly, it is not just about the payback over time; it is about the range of impacts that we get. I mentioned the five years of investment that resulted in a return of 85,000 jobs, £900 million in tax, £2.5 billion in capital investment and £8 billion of export. That is a good return. Further, we returned £600 million of that funding through income. This is not a cost line; this is an investment line.

An example is the newly opened south harbour in Aberdeen. We have been involved in that since the early days of planning and through some fairly challenging times. I am confident that the project would not be at the stage that it has reached without the funding interventions that we have made. That will pay back over decades.

We constantly have to make the case about the fact that we are making an investment in the economy, and we have to be clear about our returns. I think that we are now much better at expressing how that benefit flows through. Ultimately, we are here to drive up wages and deliver a more productive and better economy for people. We have to be always on the case in making that investment and always striving to improve our returns as well.

Jane Morrison-Ross: This is a difficult one for me to answer because, as Colin Beattie highlighted, some of the investments that we make are in projects such as Midsteeple Quarter, and are about regeneration, housing and retail. We work closely with organisations such as South of Scotland Community Housing and Homes for Good. Those are Glasgow-based, but we are about to pilot our first outside-of-Glasgow social enterprise to tackle the private-rented gaps in the south of Scotland.

Our area has fundamental infrastructure challenges that make our effectiveness as a development agency not as good as it could be. As you know, we look at housing and infrastructure right across the south of Scotland. There are significant public transport infrastructure challenges across the south of Scotland. For example, a young person in Eyemouth has a six-hour round trip to Borders College by bus. We have to find a way to tackle those issues, and we have to find a way through.

Having said that, we continue to work with partners to invest in those things. We continue to work with the South of Scotland Regional Economic Partnership to lead on the transport, skills and housing groups, and are considering how we can directly intervene in some of those areas.

As colleagues have said, the investments and interventions that we make are financial and intellectual. The expertise of our team is also transformational. At the moment, we are working with 679 businesses across the south of Scotland. Some of the investments are more significant as well. Anthony Daye can give you more details on that.

Anthony Daye: One example of our bringing money in is the Forest Holidays development. We were very much the last funder, but we also got the deal over the line with a £4 million investment on top of £18 million from the company. Similarly, Tweed Forum got £4.5 million from us but £22 million from elsewhere. Sometimes a pitch can bring in a huge amount on the basis of a smaller investment from us. The figures might not be as impressive as Adrian Gillespie's, but our investment has created 590 jobs and safeguarded 562. Again, as Jane Morrison-Ross said, those are longer-term transformational and generational returns, but we are also focused on what our other colleagues talk about in terms of the here and now and what we need to do to bring money in, get leverage and deliver on the traditional metrics as well. We try to balance both elements.

The Convener: Maggie Chapman wants to come in with some questions but, Kevin Stewart, if you have a brief supplementary, I can let you in.

Kevin Stewart: I have a number of quick questions, but I can go after Maggie Chapman.

The Convener: I will bring you in after Maggie.

Maggie Chapman (North East Scotland) (Green): Good morning. I am sorry that I cannot be with you in person today.

I want to pick up on a couple of points and explore a couple of things in a little bit more detail. Adrian Gillespie, earlier, you talked about energy transition being a key priority and said that you were taking a mission-based approach to that. Could you outline where you see the challenges, particularly in relation to supply chain issues? We have heard a conversation this morning about skills gaps and that kind of thing, but I wonder about the readiness of Scotland's supply chain and the work that you do across that area for a just transition, with that particular mission-based approach.

Adrian Gillespie: The critical element of the mission-based approach is that it will be led differently. It will be led by bringing to bear in a systematic way all the support across our international operations and our people across Scotland. We will look at issues such as the provision of commercial infrastructure and business property, and ask whether we have the fabrication properties, the space and the funding models that will ensure that we can land all that investment here. Skills are a crucial factor as well—regional skills planning around the freeports, for example, is critical.

We have a strong inward-investment pipeline in this area but it is only a pipeline at the moment, so it needs to be converted. We are seeing some of that coming forward: Stuart Black mentioned Sumitomo; and we have the prospect of XLCC's investment bringing 900 jobs to Hunterston. Those are big investments. However, converting that pipeline will depend on there being a supportive landscape in terms of renewable energy investment. We have seen recent developments in terms of the lack of awards in the recent allocations for offshore wind investments, for example. Those are factors that will play into how quickly that pipeline gets converted into real jobs landing here.

The other dependencies are things such as grids and consents. We need a co-ordinated approach to understanding whether there is a clear build-out programme for our offshore wind or hydrogen infrastructure and whether that will deliver not just security of supply but economic impact.

We have a greater challenge around the domestic supply chain and we are gearing up for that. We aim to support 1,000 companies We have a community wealth-building lead, who does nothing but focus on the community wealth-building opportunities that we can leverage from commercial and community-based opportunities. That team has also recently commissioned BiGGAR Economics to produce a report on community benefits from renewable energy and how we can take a more strategic approach to leveraging community benefits across the south of Scotland in the offshore wind and hydrogen supply chains over the next three years to make investments that will prepare them for what is to come. The sooner we can reach certainty over when the projects will land, the sooner companies here can know when they will get a purchase order and who their customers will be. We can, in the middle, work with the developers, the tier 1 suppliers and the supply chain to make sure that that approach is co-ordinated.

The numbers here are big, which means that the challenge is quite big as well, and we are gearing up for that: our response has to be big, too.

Maggie Chapman: Thanks for that; that is helpful. A challenge is that the interim targets for emissions reductions are not only about energy generation but are also about other aspects of the energy economy. Again, with a specific focus on supply chains, how do you rate the readiness of construction, transport and elsewhere to reduce energy use in heating buildings and those kinds of things? Where are the challenges? What do you need to see from the Government to help support all that work?

Adrian Gillespie: There are some good examples of companies that have taken big steps in terms of their carbon footprint, and we have supported many of them to do that, because a lot of companies, mainly smaller ones, have found it much more challenging to identify a route forward for reducing their footprint. For example, we have introduced an online diagnostic tool, which is available across the country and can assist companies to take their first steps to understand how they might reduce their carbon footprint, after which we can bring in follow-up support around that through specialist advice or funding to enable them to make some of those improvements. The Scottish manufacturing advisory service advises companies on how they can lower their emissions as well. A range of things is going on. The figures indicate that many more SMEs in particular need to have a clear way forward to reducing their carbon footprint. More remains to be done, but the resources are there.

It is not just us and the Government that are involved in this, because the banks are involved in advising customers, too. There has to be a strong collective effort here. Much more remains to be done—that is my summary.

I would add that this area is opening up strong market opportunities for companies. Many of the companies that we invest in face directly into global markets that have opened up around low carbon. Through an Ayrshire company, Emergency One, we export electric fire engines across the world; and, through Intelligent Growth Solutions, we export vertical farming equipment globally. There are some exciting opportunities here as well as no shortage of challenges.

11:00

Maggie Chapman: Thanks. Jane Morrison-Ross, I have a similar question for you. You talked earlier about the challenge of scaling deep, rather than just scaling up. Quite often, genuine community benefit and sustainability can be built in as part of that deep scaling.

Thinking about the organisations, companies and businesses that you work with and support, what supply chain issues could support those deep-rooting and embedding approaches by companies, with a focus on the targets for climate emissions reduction by 2030?

Jane Morrison-Ross: As Adrian Gillespie said, companies are pivoting to fill some of the gaps in those supply chains and the supply chain challenges. SOSE's net zero nature and entrepreneurship directorate and team have people who do nothing but advise, support and help businesses identify opportunities and face some of the challenges. We have a shared resource with Zero Waste Scotland, which is wonderful and is completely dedicated to helping companies to identify entrepreneurial opportunities in the circular economy supply chain from renewable energy—not just wind but, looking further ahead, forestry and other areas like that.

There are challenges but we have companies flowing in like water to take up that space and to look at how we can address them.

Maggie Chapman: Are they barriers? Does the Scottish Government have a role in alleviating some of those challenges? Is it doing what it should be doing in that regard?

Jane Morrison-Ross: We have transparent communication with our sponsor team and a number of Scottish Government colleagues. When we come across specific areas where we need additional insight support or expertise, we quickly use those channels to see what can be done to help to alleviate some of those pressures.

Sometimes, little can be done at Government level. Adrian Gillespie mentioned energy. We were working with Gretna Green Ltd when the energy crisis hit, and it saw a 400 per cent increase in its energy bills. Team members and partners worked together and the company managed to reduce its energy consumption by 30 per cent within weeks. Again, nothing could be directly done but, by leveraging support from partners and other organisations and getting teams in there directly, we managed to make some direct interventions.

Maggie Chapman: Thank you. Stuart Black spoke earlier about the different areas of work within the regional economic partnership, and you mentioned housing as a key challenge. It is well known that housing is a challenge in the Highlands and Islands as well as in other rural areas.

Where are the supply chain challenges for you in that, particularly thinking about the targets that we have not only for climate emissions reduction but also for improving the standard, quality, energy efficiency and heat retention of homes? What are the barriers to getting better at that?

Stuart Black: A lot of it relates to questions around skills. Also, the construction sector is affected quite significantly by labour shortages. There are a number of issues.

A challenge for the delivery of rural homes is that the bigger-volume builders prefer to build in towns and cities, where they get economies of scale, rather than rural areas, where they do not. Similar things apply to greening and achieving the just transition in more rural places. It is easier to do a whole housing scheme in a city location than to do multiple small individual homes in a rural area.

However, we have done some practical things. This year, we put in place a £2 million green grant fund, which is designed to help companies to reduce their emissions and look at opportunities. As Adrian Gillespie said, there are huge opportunities in this area. With the floating offshore wind sector, £28 billion of investment is coming to Scotland and being spent in Scottish waters. We are already working with the supply chains in Shetland and Orkney. The main contractors attend events that we help to facilitate, often with the local authority, to show the opportunities that are there for businesses.

There are huge opportunities here, but there are challenges around the capacity of the construction sector, particularly in terms of labour supply but also in terms of skills and the need for colleges in particular to train more plumbers and heating engineers so that we can get more and more of these people into the market.

The Government has a role in terms of certainty. If the Government can make it clear that those targets are coming and say how they will be delivered, the activity will happen. It is uncertainty that creates the challenge, even if it is someone wondering whether to go in for a certain apprenticeship or not. If there is certainty about something happening and if the funding stream is there, the investment should flow.

Maggie Chapman: Thanks. I have a final question for Jane Morrison-Scott—I am sorry if you addressed this earlier and I missed it.

SOSE does not currently set measurable targets on jobs created, investment drawn into businesses and carbon saved. Can you give us a little bit of context for that and say whether you have any plans to change that in the future?

Jane Morrison-Ross: The short answer is yes, we do. As I mentioned earlier, we set up a performance measurement team—small but perfectly focused—to work with our insights team. It will not be just internally focused. We had a shortage of data specific to the south of Scotland right across the region, and extrapolating data for the region from national data did not give us what we needed at all, so we are trying to ensure that we have the data that we need externally as well as internally. We are looking at all of that, as well as the non-traditional targets that I mentioned earlier—we are developing both now.

Anthony Daye might want to add to that.

Anthony Daye: It is a maturity thing—we have recognised that in talking with Audit Scotland. The measures that we have put in place, which Jane Morrison-Ross has talked about, should see those targets coming through quickly.

Jane Morrison-Ross: Sorry—Stuart Black has reminded me that I should have said that we have set up a net zero innovation fund as well as a community ambition fund and a number of others to address some of the challenges that he highlighted in relation to the just transition.

Anthony Daye: On the challenges that you asked about, there was an Audit Scotland report on the labour and skills shortages in the construction sector—that goes to Stuart Black's points directly. That is a big barrier and challenge, and the issue spirals from there. We recognise that Audit Scotland has pointed that out quite strongly already.

Kevin Stewart: I have a few quick questions.

There has been an emphasis on the supply chain. One thing that we can do is change supply chains and stop imports. Let me give you an example of where that can be done and where we can take real opportunity from academic research that is being done in Scotland.

I think that Adrian Gillespie mentioned vertical farming. Obviously, that is a growing area. Berry farming is already huge in Scotland. We import a huge amount of coir, which is a coconut product, for vertical farming and berry farming. Meanwhile, academic research on the use of hemp is going on at the Rowett institute in particular.

How can we make sure that that academic research becomes a reality? What can you do to influence those changes in supply chains to ensure that we import less? That is much better from a net zero point of view, and it gives the opportunity for growth in Scotland.

Adrian Gillespie: Earlier, I spoke about the commercialisation work that we do with universities, which takes ideas out of universities and creates strong and high-growth companies from them. I mentioned that vertical farming is an example of intelligent growth solutions. We have used our photonics and data science expertise and our knowledge of crops and crop research. We have combined that and come up with something that is really special. The work that we do in partnership with universities and research institutes to make that happen is critical.

We can do that in other ways. For example, we work closely with the James Hutton Institute on its crop research work and creating infrastructure around that to spin out more companies that can release more of that into the economy. That is going very well.

Another area is medicines manufacture. Funding from us and others—mainly the private sector, but with our funding to support it—has created the medicines manufacturing innovation centre at Inchinnan. Its work is about new ways of manufacturing that will be much more local and will bring the manufacturing of pharmaceuticals and related medicines back to Scotland.

A lot of that work is going on, and we play an important role in import substitution.

Jane Morrison-Ross: It is really exciting to hear about some of those things.

We are doing a lot of work. We have mentioned the SRUC dairy innovation centre and dairy nexus, which is partly supported by the Borderlands inclusive growth deal and the Scottish Government. In the south of Scotland, we produce two thirds of dairy for Scotland, so looking at how we make that sustainable and regenerative is a key area for us. We support the different types of dairy farms across the south of Scotland. We have done that in conjunction with international experts, people who farm and Scottish Government colleagues to ensure that we have that in the round.

Hemp is a really interesting issue. We have invested in a number of companies. IndiNature, which we mentioned earlier, takes hemp and produces carbon-zero insulation. That has a huge part to play in retrofitting and future building processes. We also have Meducan and Hilltop Leaf, which farm medicinal cannabis in the south of Scotland. One uses a traditional method and one uses a vertical farming method.

We are also looking at how hemp production can be developed in the south of Scotland. A consortium of farmers is leading that work. It hopes to be licensed to produce hemp locally—apparently, our climate is rather good for it—by next year.

Kevin Stewart: My understanding is that hemp was grown to a huge degree in the middle ages. It sooks up carbon dioxide.

I turn to Stuart Black, who does not have to talk about hemp.

Stuart Black: I was going to give examples of how we work with universities, particularly the University of the Highlands and Islands. We have a life sciences focus around Inverness, where LifeScan makes a third of the world's diabetes test kits. That is one of Scotland's big export successes. We have built quite a lot of incubator space around that.

I think that Adrian Gillespie mentioned spin-outs. They need somewhere to be. We have spin-out space associated with the life sciences in Inverness. At the Scottish Association for Marine Science in Oban, we have a focus on the blue or marine economy. A lot of expertise is coming out of there. We are also thinking about a second phase of our European Marine Science Park down there.

Orkney Research and Innovation Campus, which is a joint venture with Orkney Islands Council, is designed to get expertise from the marine sector into new businesses and create new economic opportunities there.

Those are three examples that fit very well with Scotland's innovation strategy, which is about linking business, academia and the enterprise agencies to create a virtuous circle of investment opportunity.

Sumitomo provides a great example of import substitution. There was a danger that all the cables for the offshore wind sector in the UK would be imported. Sumitomo, which is a Japanese company, working with Scottish Development International, is coming to Scotland to make those cables here so that they do not have to be imported.

Kevin Stewart: More of that, please.

I think that all of you have mentioned hydrogen, which, obviously, has huge opportunities for us in Scotland, particularly in the export market to places such as Germany. We have our hydrogen strategy, and we already have some expertise in Scotland, in respect of transport in Aberdeen, in my own neck of the woods.

Does what are you doing fit in with the hydrogen strategy? Are you speaking to other experts about the formulation of your future investments? What needs to be done differently to make those future investments easier?

11:15

Jane Morrison-Ross: We have a head of energy transition—Paul Wheelhouse—whom some of you may know from his former job.

Kevin Stewart: I think that we do.

Jane Morrison-Ross: He has been leading that work for us. It started with a report entitled "Powering Change: Calling the South of Scotland to Action", which was done probably three years ago. That has been transformed into our energy transition strategy.

We will have our second hydrogen brokerage event on 10 October in Newtown St Boswells, if anybody would like to join it. The first one was a revelation. People were not sure that the south of Scotland would attract many interested parties. I think that we had 150 delegates at the first event, and we are on track to have many more.

There are a number of very active companies. Cochran Ltd is testing hydrogen boilers in the south. It supplies both Houses of Parliament and most of the whisky distilleries throughout Scotland. It is trying very hard to make that leap.

The hydrogen supply chain is the biggest challenge for a lot of our innovation in the south. That has been recognised previously. As I mentioned, we work with companies that can bring a part of the jigsaw puzzle to unlock the hydrogen supply chain. There are great examples. There is David Amos's company. I have gone completely blank on its name—that is terrible. However, it produces renewable energy in the Highlands and Islands and uses that to power hydrogen boilers. [*Interruption*.] PlusZero is the name of the company. It has been instrumental at the Edinburgh festival and events across Scotland in bringing hydrogen generators into play.

The work that we do is very much aligned with the overarching national strategy, as members would expect, given who is leading it. For us, that is absolutely critical. Some 28 per cent of renewable energy is now produced in the south of Scotland. That is a major area of growth for us. The redevelopment of the former nuclear site at Chapelcross—the CX project—will be a key area in which we will build that energy transition model.

Kevin Stewart: Adrian Gillespie said that the south harbour at Aberdeen should do us a turn for decades. I hope that it is centuries. After all, Aberdeen Harbour Board is the oldest company in these islands—it was founded in 1136.

Adrian Gillespie: Absolutely. Hydrogen is critically important and a huge opportunity. I mentioned offshore wind and hydrogen. Those are the two big areas of opportunity for us. We have done a lot of work on mapping the supply chain. Hundreds of companies in Scotland map on to that supply chain. A hundred projects are happening.

Next, we need to start generating hydrogen at scale. We need a really clear plan about the energy sources for that and the green energy sources. Internationally—this is from investors whom I have spoken to at utilities in Germany and investors in the US—we are very much seen as having a strong advantage there. There is competition in that area, but we have strong advantages. Our proximity to Europe is absolutely one of those advantages.

It is about generating at scale, getting the first scaled hydrogen generation projects up and running, and the infrastructure to get that hydrogen. We will use it for our own uses, but we have the ability to generate significant amounts of hydrogen that could be exported. How that reaches mainland Europe and the pipeline development is very much on our radar, working with partners. The Net Zero Technology Centre has done some feasibility work on how that might happen.

It is also about import substitution and ensuring that we manufacture the equipment for hydrogen here—principally electrolysers. We currently have a number of electrolyser manufacturers in our inward investment pipeline that we are encouraging to come here to establish their operations.

Kevin Stewart: It would be interesting to hear more about that. If you could send me the detail, that would be wonderful.

Adrian Gillespie: Sure.

Stuart Black: Green hydrogen in particular is a huge opportunity for the Highlands and Islands. There are projects across the region from Shetland to Argyll. A lot of it is associated with the transition to a greener future for places such as Sullom Voe and Flotta. There are projects in Shetland and Orkney. We have the transmission cable going to the Outer Hebrides. The area is pretty full with wind energy development so it is being looked at—and the offshore wind farms to the west of the Hebrides in particular—for green hydrogen production. Storegga, the Inverness and Cromarty Firth Green Freeport company that I mentioned is involved in that. Decarbonisation is a huge issue for the whisky industry and it could be a huge source of demand for green hydrogen from our region. We have been collaborating with the Net Zero Technology Centre, which Adrian Gillespie mentioned.

We see green hydrogen production as one of the three big economic opportunities for the Highlands and Islands. We are strongly focused on it. The potential investment of around £25 billion is a massive opportunity. That is, again, a good example of something on which we collaborate across the three agencies.

Kevin Stewart: I have a question for Jane Morrison-Ross and Stuart Black because you have both mentioned—others have, too—the lack of housing stopping growth. As a former housing minister, it annoyed me greatly that some of the councils in the areas that SOSE and Highlands and Islands Enterprise cover did not meet their planning assumptions, which meant that I had to take that resource away and give it elsewhere.

In those discussions with local authorities about the housing needs to boost the economy in certain places and to boost sustainable growth, do they listen to you or are you largely ignored?

The Convener: Could I ask for brief responses, please?

Stuart Black: Yes. They definitely listen and they recognise it as a huge challenge. Some of the delivery questions relate to the issue of the construction supply chain and the ability to let contracts and have contractors available there to do the work, but the authorities listen.

It is not just about affordable housing, by the way. It is also about mid-market rent housing and the range of housing that is needed to fuel economic growth. The opportunities that we have, particularly in our region, will not be fully realised if we do not have the people there to do the work. That is why it is so fundamental. However, they are definitely listening.

Jane Morrison-Ross: I agree with what Stuart Black said. We work in partnership with both of our councils on that. Our chair was given some direct responsibility by the former Deputy First Minister at the convention of the south of Scotland—not the previous one but the one prior to that, which was entirely focused on housing.

We work directly with both councils to look at what can be done collectively. We work with all seven registered social landlords in the south of Scotland to look at aggregated power to tackle some of those supply chain challenges. We look at the building of new homes, modular construction and the private rented sector, as I mentioned, with the first Homes for Good pilot. As Stuart said, every type of housing is needed, but we are tackling it together.

Kevin Stewart: This is my final question—it just needs a yes or no response. We realise the constraints in your budgets. We have growing inequalities in society. Will you do all that you can to ensure growth in the more deprived areas of our country and focus on getting rid of those social inequalities? We have heard some examples today.

Jane Morrison-Ross: Yes.

Stuart Black: Absolutely, yes.

Kevin Stewart: Thank you very much.

The Convener: Thank you. I have one final question. The Ana Stewart review reported earlier this year. We are still waiting on the Government's official response. The committee often hears that the current investment and support landscape does not meet the needs of women entrepreneurs or women who are looking to grow their businesses. I will come to Adrian Gillespie first. What is your response to Ana Stewart's report, and what is Scottish Enterprise doing to support women in business and to encourage growth in that area?

Adrian Gillespie: We have done a number of things over a number of years to try to increase participation in some of our entrepreneurship programmes. We are developing a new programme that directly responds to the Stewart review and addresses some of its findings. For example, it was noted that there are not enough role models or mentoring support, and that the pathways into investment are not clear and sometimes do not favour women who want to invest. We will increase the links between the cohort that we bring on to that programme and not only investors but the internationalisation support that wraps around that. We will launch that programme soon. That is a direct response to the review.

The Convener: Stuart Black, do you have anything to add?

Stuart Black: It was quite interesting when we did a bit of work on our customer base. About a third of the businesses and community organisations have women chief executives or are led by women, which is quite encouraging. We want to get that figure higher. More than half of the participants in our management and leadership training over the past year have been women. We are definitely doing work on that.

Four of the directors in my organisation are women. Making sure that we use case studies for our courses and things that promote the diversity of people in the region also helps to encourage more people along. Recently, women have been in the majority on those management and leadership courses. It is about 60:40.

There is definitely more to do. A lot of that is about confidence building. Another big challenge in rural areas—which does not just affect women—is the availability of childcare. There are some practical things to do, but we are firmly focused on making sure that women entrepreneurs are supported properly in our region.

Jane Morrison-Ross: Back when Mark Logan was doing the Scottish technology ecosystem review consultation, Dr Poonam Malik, Wendy Lamin and I fed directly to him about the need to focus on underrepresented founders. Women were one of the groups but not the only group. We still need to broaden that focus to all underrepresented founders.

Because it is a priority for us in the South of Scotland Enterprise, we have a team out delivering that now. If you look on social media, you will see that we have live women in enterprise events. We have specialist coaches to work with women entrepreneurs. The feedback that we get is exceptionally strong. They measures are going well. The number of attendees is increasing, as is the contact coming through the core team and our Business Gateway teams. More than 60 per cent of SOSE staff are women.

Yes, we put our money where our mouth is on that one, and we will continue to look at other underrepresented groups and the support that we need to deliver to them next as well.

The Convener: Adrian Gillespie, in some ways, is it easier for Highlands and Islands and South of Scotland to direct support more towards women entrepreneurs? I know that you all work in partnership, but they tend to work with smaller enterprises while you work more on an international and global stage. Is it more challenging for you? What are you doing to overcome those challenges so that we see more women in higher growth areas and in bigger exporting businesses?

Adrian Gillespie: I do not think that it is more challenging in the entrepreneurship area—our figures certainly do not suggest that. I mentioned recent entrepreneurship programmes that we have been running. We have had at least 50 per cent representation from women in those programmes. We have worked with more than 750 women in entrepreneurship since 2019.

Our reach into the community is strong. We do that through our company connections but mainly through our connections in the investor network and the wider ecosystem. That is well developed, so yes, we can access potential entrepreneurs.

The Convener: Thank you very much to the witnesses for your evidence this morning, which will help to inform our pre-budget discussions.

11:28

Meeting continued in private until 11:52.

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