

Scottish Affairs Committee

Oral evidence: Sustainable Employment in Scotland, HC 762

Monday 16 January 2017, Dumfries.

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Members present: Pete Wishart (Chair); Deidre Brock; Margaret Ferrier; Chris Law; Anna Soubry; John Stevenson.

Questions 167 - 266

Witnesses

I: Jack Clark, Convener, Scottish Borders Chamber of Commerce; Bruce Simpson, Communications Director, Scottish Borders Chamber of Commerce; and Brian Richardson, Chief Executive, Dumfries and Galloway Chambers of Commerce.

II: Councillor Colin Smyth, Chair, Economy, Environment and Infrastructure Committee, Dumfries and Galloway Council; Councillor John Mitchell, Depute Leader, Scottish Borders Council; Alistair McKinnon, Location Director for the South of Scotland, Scottish Enterprise; and Linda Hanna, Managing Director for Strategy and Sectors, Scottish Enterprise.



Examination of Witnesses

Witnesses: Jack Clark, Bruce Simpson and Brian Richardson.

Q167 Chair: First of all, can I welcome everybody here today to this formal evidence session for the Scottish Affairs Committee? Given that this is a session of Parliament, if I could ask all of those who are here to witness the proceedings not to interrupt and not to participate; this is a formal session of Parliament here in Dumfries. Can I thank our first guests for turning up this afternoon? I will go from left to right: if you say who you are, who you represent and any way of a short opening statement. Lastly, when you are responding—and this goes for Committee members too—you press that big button in the middle or you are not going to be picked up on our recordings, which will be available on our website tomorrow. Mr Clark.

Jack Clark: Good afternoon, Chairman, ladies and gentlemen. Jack Clark, Chairman, Borders Chamber of Commerce, one of the 26 Chambers situated throughout Scotland and comprising basically a rural community, the main cornerstones of the economy being both agriculture and tourism. They are broad subjects that I will inform you about as our meeting progresses, subjects that are ongoing and also issues that we are raising with each of these sectors.

Chair: Mr Clark, I am grateful. Mr Simpson.

Bruce Simpson: Yes, Bruce Simpson. I am the Communications Director of the Scottish Borders Chamber of Commerce. My background was tourism for 45-odd years. I have been with the Chamber as a director for the last six years, I think it is, and very much involved in all activities pertaining to the Chamber. Brian is giving an opening statement for all three of us.

Chair: Mr Richardson, over to you.

Brian Richardson: My name is Brian Richardson. I am the Chief Executive of Dumfries and Galloway Chamber of Commerce and a project director of our regional Developing the Young Workforce programme. This is a statement on behalf of the Scottish Chambers of Commerce, including the two Chambers you see before you.

Our understanding is that the Scottish Affairs inquiry into sustainable employment would like to continue to discuss the issues raised in the March 2015 Borderlands inquiry, in particular comments by Chambers on how integrated operations can be developed to support sustainable employment in the south of Scotland. Integrated operations methods can be applied in the areas of internationalisation, innovation and productivity, the premise being that what is required in the south of Scotland is a reshaping of the regional economy, not just an optimisation of current approaches in traditional sectors within the existing structures.



In our submission, Chambers would like to illustrate how the gap analysis of integrated operations can yield new insights and new opportunities for long-term sustainable employment. In particular, we want to provide illustrations in the areas of internationalisation and innovation and would like to read out—at an appropriate time—a short supporting statement from Heriot-Watt University about how a potential embedded intelligence centre could create a resilient and sustainable economy.

Our firm belief is that there is a need for a new regional evidence base that will recognise business requirements, such as the considerable need for succession planning, the corollary being that the private sector, and particularly the Scottish Chambers of Commerce, need to have representation on the new vehicle for economy and skills development. The integrated operations approach can offer new insight, lever the talents and fund stakeholders and deliver successful outcomes. We look forward to your questions and the discussion.

Q168 **Chair:** Thank you very much, Mr Richardson. Yes, we are back from Borderlands. It is two years ago now since we produced that report from the inquiry. For what it is worth, it is one of the best pieces of work this Committee did in its last session.

What we are keen to do—as you said, Mr Richardson—is to have a look and update about where we are on some of the issues that were identified in that last report. The key thing that report found was this region had different needs to other parts of the UK and, indeed, other parts of Scotland and required different types of support. What sort of support do you feel that the south of Scotland requires, which is maybe different and specific to the rest of Scotland than it is the United Kingdom? Do you feel that you are securing that support currently? We will start with you, Mr Clark, if that is all right.

Jack Clark: Chairman, insofar as the Border region is concerned, first of all, 94% of the businesses have 10 employees or fewer; if you come down to about 92%, they have five employees or fewer. We have more sheep in the region than we have people. We are a livestock and food-producing region. The area has to be known and has to be recognised as being business-friendly. Support: let it be through rates issues, considering that we are competing with Northumberland, which is under a different rateable system. Also, looking ahead to the future insofar as the young workforce is concerned, we are directly involved within our region in the instigation of Developing the Young Workforce. That in itself is a most welcome support that is coming into the region.

As was mentioned earlier, we now have a train from Edinburgh to Gala. We are hoping it is going to Hawick; it should go to Carlisle, thereby easing the extradition of timber out of Kielder. Also, improving the connectivity, which, again, support in broadband and support in mobile phone coverage would be appreciated, especially considering that in the future, not only tax returns are going to be completed online but all agricultural returns have to be completed online. What we must have is not 94% coverage, because what I would like to be clear upon is: does



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94% coverage of broadband mean 94% of the country or 94% of the population, bearing in mind the population lies between Aberdeen, Dundee, Edinburgh and Glasgow? Any support in these sectors is always welcome.

Q169 **Chair:** I am grateful. Mr Simpson, in our last report we identified some of the key issues as being around some of the things Mr Clark has identified: connectivity, in particular broadband, infrastructure and transport. In your view, has there been progress since this Committee last had a look in this area?

Bruce Simpson: Yes. Every meeting we come to, we are always talking about basic business infrastructure to allow the Borders to compete with the Central Belt and elsewhere. The Borders are sitting between two huge conurbations, one in central Scotland and one just over the Borders around the Newcastle area; here we are sitting between the two of them and our infrastructure is pretty poor. Yes, it is improving. My broadband is getting a little bit better. There were only about two or three texts I could not send yesterday because I had no connection.

There is improvement and on the horizon there are things happening in the Borders that could be good for the economy—we must admit that—but a lot still has to be done. I still don't agree with the fact that, when it comes to broadband or mobile technology, the rural areas come last. There has been some talk about some companies being told, "If you are going to develop broadband in the area or communications, you start with the rural. Then you can get the honey pots after you have done that". I think that is a good way to start.

Q170 **Chair:** Mr Richardson, in terms of this general thing, in your view, how effective has the support been that your members have received from the Government or other public bodies?

Brian Richardson: The Borderlands inquiry did contain quite a lot of discussion on the operations of Scottish Enterprise and others. I have a couple of quotes here, which are fairly cross-party. David Mundell said that the activities of the Scottish Enterprise offices were now perceived as "a bit of an inconvenience". Joan McAlpine cited the view of the Scottish Local Authorities Economic Development Group that an unintended consequence of this process "has been a considerable reduction in local economic development expenditure". We put it, too, that staff had been redeployed on national projects to the detriment of developing innovative solutions for the area.

We come from the position that—I think as Bruce mentioned—there is no recognition of the NUTS 2 social and economic deprivation as a collective region, which has been a historical issue certainly for 20 years. In my opinion, it should have been done at the time the Highlands and Islands Enterprise was set up in 1995. We are now faced with the harsh reality of 20 years of that situation and we need to start to find ways of turning



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that around in innovative ways, bringing projects to the area, bringing in different types of employment.

The other thing I want to say is there is a lot discussed about connectivity and the lack of broadband and so forth. That is true. That is well-articulated; you can get the facts and figures. As the Chambers of Commerce, we believe that the real issue is that the local economy has become dependent on the ability to engage with these digital economies. It is not just about the fact that they don't exist or you cannot get access to them. There is a real issue around how you engage and how you use those technologies, particularly in the areas of e-commerce.

Q171 **Chair:** Has Scottish Enterprise responded to the concerns that were raised about these failures, some of the particular needs of the south of Scotland? Have you had anything back from Scottish Enterprise? Have Scottish Enterprise responded to criticisms they had about failing to meet some of the needs and requirements of the south of Scotland?

Brian Richardson: I am not aware of any formal response. I believe they are on later, so if you could perhaps ask them. I cannot answer the question.

Q172 **John Stevenson:** Mr Richardson, I am very interested in your comment about the Highlands and Islands. The Scottish Government have been conducting a review of enterprise and skills support, and they have said they wish to create a new vehicle to meet the enterprise and skill needs of the south of Scotland. What are your views on this?

Brian Richardson: It is long overdue. I have already said that there should be private sector representation. Particularly the Scottish Chambers of Commerce would like to have representation on such a vehicle. We believe that it should take a new approach, an integrated approach, which brings together the talents, the funding and the abilities of all of the agencies in the region. We believe that there should be a much higher level of engagement, particularly with business. Frankly, that is what has been missing for quite a while.

As Chambers, we are now fully engaged, particularly with the DYW process. I don't know if you know anything about Developing the Young Workforce, but one of the requirements is that we have to engage with a minimum of 35% of the active businesses in the region, which in our region is about 1,400 businesses. We are currently full-on engaged with 1,400 businesses out of 4,000, and the others are all coming in as well. It is that level of frontend engagement that has been missing historically, that level of ability to reach businesses and suggest outputs.

Q173 **John Stevenson:** On that basis, Mr Clark, do you think the Scottish Government is doing enough for the south of Scotland?

Jack Clark: It has certainly improved, Mr Stevenson, over the last six months, especially with the advent of Developing the Young Workforce. Similar to Mr Richardson, in our area we have 5,700 businesses, not only



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through our own Chamber but through DYW. We now have a manager appointed and she will be leading this forward to ensure that all these businesses are aware of what is available. This is the first time it has happened. Up until now, the youngsters have gone north or south. Now there is more of a reason for them to stay within the area and assure some form of security in employment, let it be through entrepreneurial skills, which can be aided by the mentoring programme—more of which Mr Simpson could tell you about—but ensuring that this DYW is a runner.

Q174 John Stevenson: Thank you. Mr Simpson, the Scottish Government clearly wants to have a new initiative to try to engage with the south of Scotland. What is your view of the private sector's involvement in that and will they, dare I say, rise to the challenge that is being offered by the Scottish Government?

Bruce Simpson: Yes, I think so. If I can say, first, that both Dumfries and Galloway and ourselves spoke very vociferously, at the last Scottish Affairs Committee in Gala two years ago, about the need for a South of Scotland Enterprise. In fact, I used to work for the old HIDB up in Inverness, so I know the benefits that can derive from that. It is very, very important that the private sector gets involved in this and takes it on and I am sure it would be, if given the chance, likewise for things like City Deals; anything like that needs to have private sector involvement.

Q175 John Stevenson: Therefore, do you feel that the Scottish Government have been listening to you?

Bruce Simpson: Yes.

Q176 Margaret Ferrier: I would like to come back to some of the key sectors in the south of Scotland. In your opinion, what are the most important industries in this area and what characterises the labour needs of these sectors? I will come to Mr Clark first.

Jack Clark: As indicated earlier, the cornerstones of the economy in the east of the country are agriculture and tourism. Exporting is not to the extent that it was 20 years ago, but agriculture and tourism would still be the main components of the economy within the region. To that end, again, certainly it has been indicated through the Chamber council meeting with Lord Thurso that in having the private sector involved locally in each of these regions, in developing and liaising with VisitScotland, in enhancing the tourism prospects for that region, the private sector has feet on the ground and people that know the industry themselves.

Q177 Margaret Ferrier: Thank you. I am going to come to Mr Simpson. The Scottish Government have set out six growth sectors for Scotland, food and drink for one, and tourism and the creative industries. Do you feel that you are getting enough support for the tourism industry in this area? Because it is a beautiful area and it is important to promote the area, so are you getting that kind of support that you would expect?



Bruce Simpson: You have me on my hobby-horse now. I have been involved in tourism for 40-odd years. We need more assistance towards helping the private sector tourism promote itself. That is the reason why the Borders Chamber of Commerce has an application in front of the Leader and Fiona Hyslop, to get a consultant to look at ways that we can set up a Borders regional marketing agency run by the private sector but financially sustainable in the longer term.

We are adamant that tourism must be governed more by the private sector rather than the public sector, which it has been since 1966—I think, to my historical knowledge—and run sustainably. That is the main word, “sustainably”, because we have lost all the tourist boards because of the fact they were using so much public money. I can understand that, but we have to be positive about this and see how we can set up regional bodies that are sustainable in the longer term.

Q178 **Chair:** What is required then to give that extra boost to tourism in the Dumfries and Galloway area? Is it the infrastructure? Is it the creation of new tourist boards or bodies or is there some other type of intervention that could help and assist? You were talking about tourism.

Bruce Simpson: I was talking about Dumfries and Galloway. I cannot answer that point. The advent of the Borders Rail has been a big, big change in the way that tourism is building up in the Borders. My really sad tourism is what we call travel trade. The travel trade are all these buses and coaches you see going up and down the roads and coach tour parties up in the Highlands and so on.

For the Borders, we have seen them going up the A1 and the A74 and missing out the Borders entirely. With things like the Borders Rail coming into Galashiels, we are going to start seeing these buses coming into the heart of the Borders. They are going to use steam trains when they are on. That is going to generate the need for more business in Gala, hotels in Gala, which they desperately need for the travel trade. That can help tourism to build up. I think for the future—thanks to the Borders Rail—tourism will be enhanced over the next 10, 20 years.

Q179 **Margaret Ferrier:** When we talk about tourism, are we talking about all-year round tourism in the area or is it focused mainly on the summer months? How do we push to get it to be an all-year round destination?

Bruce Simpson: There are many facets to tourism. There are a lot of different markets you can go for throughout the whole of the year. Up in Fort William, where I was, we fought long and hard to get Aonach Mor going ahead and we eventually did get it going ahead. That has made Fort William easily 12 months of the year. The Borders have so many different markets. They have the cycling, the walking. We are sitting between two huge conurbations. You don't have the same problems as the Highlands, getting people up to the Highlands, first of all. We have them on our doorstep. We should be promoting towards those markets



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and trying to get them more involved in coming into the Borders. That is why we need our own promotional vehicle to do that.

Q180 **Anna Soubry:** Could I ask about that last point about tourism? You feel—I don't know whether Mr Richardson wants to answer this—that Dumfries and Galloway does not have enough of its own tourism—whatever you want to call it—to promote what makes this place so particularly attractive and its particular features and so on; frankly, all the things you expect it to do?

Bruce Simpson: We have an agency called the Scottish Borders Tourism Partnership, made up of some very professional, very hardworking, good, loyal tourism people. In the last few years they have produced a tourism strategy. Unfortunately, it has been sitting on the shelf. There is no finance there to resource it, either for staff or finance to get it promoted. That is one of the things. If we manage to get some kind of organisation going in the Scottish Borders that is the first thing it will be working on, getting this tourism strategy implemented. We are working very, very closely with the Scottish Tourism Partnership and we applaud what they have done, but they need the resources.

Anna Soubry: Did you want to add anything, Mr Richardson?

Brian Richardson: Yes, just to say that, due to the state aid rules and the European withdrawal, Dumfries and Galloway lost approximately £4.5 million. That makes a huge difference. In a tiny community like ours, that is a monumental amount of money. We have precisely £3,500 left. That is the kind of funding gap we are talking about.

Q181 **Anna Soubry:** I am very grateful for that, thank you. Could we turn now to skills? This Committee has heard in the past, obviously, about shortfalls in skills. We want an update as to where we are. What are the skills shortages? Mr Clark, would you like to start?

Jack Clark: The DYW has to be the lynchpin now in developing skills for the future. Taking school leavers and getting them straight into apprenticeships, whereby they are learning the businesses, let it be in the rural sector, let it be mechanical engineering, let it be food production, let it be food processing, but having these skills established. It is going to take some time for that to work through, but getting the young workforce straight into apprenticeships from school to learn a trade is the way forward. We are of that opinion.

Q182 **Anna Soubry:** Can you identify where there are particular shortages or do you think there aren't any? I don't know. There might not be any at all.

Bruce Simpson: On the tourism side, definitely the tourism industry. I know for a fact there are a few hoteliers who are very short of staff. One of them I was asking why he is not on holiday this month, as is usual. He said he does not have enough staff, so he has to do it all himself.



Anna Soubry: That is just one example. Mr Richardson.

Brian Richardson: What we have called for and what the DYW team are discussing with SDS is the fact that, for the first time, SDS is about to produce a regional skills assessment. Most of those skills assessments are based on secondary data, so that is secondary data that will say, "This is what the overall economic view looks like". What we are saying is that that is not sufficient. That it needs primary research to form an evidence base. That would be simply asking businesses what they need. There are lots of issues there. We mentioned earlier that what we are finding is that young people are coming out who don't have the skills or attitude appropriate for the opportunities. Local businesses, quite significant employers, are offering jobs and cannot fill them.

As the Chamber, what we are trying to do, through DYW, for example, we are working with Heriot-Watt to bring all the engineering disciplines, mechanical and electrical engineering, chemical, down to the college in an articulation agreement so that local businesses can sign up young people, get the skills necessary—particularly in engineering, and hopefully later on business as well—and then obviously they can move up to higher education, further education and then come back to the locality, so there is a tie-back into the local community. That is the approach we are taking. It is the start of a new type of articulation agreement, which will take a few years to implement but, in our opinion, that is definitely the way forward.

Q183 **Anna Soubry:** You know how to do all the structures to get the information you need, but can you tell us what your skills shortages are? Do you know or are you waiting for Heriot-Watt and others to do all this work?

Brian Richardson: No, we are waiting for the further evidence. First of all, we are waiting for the regional skills assessment, which has not been issued yet by SDS, I should point out, and so I cannot comment on that. We have already asked the SDS board to produce an evidence base, to look at the difference between the regional skills assessment and a set of primary questions around companies about what they need. That is the issue. Following on from that, we already know that there are certain areas. For example, I will give you a really big example—

Anna Soubry: Yes, because that is what I want to know, what are your skills shortages?

Brian Richardson: Our region is quite peculiar. We export 350 megawatts of electricity a year. We have a local requirement for 180 megawatts, so we are a massive net exporter of electricity. That is now growing as a market. We are replete with every form of renewable energy. What we are trying to do is to find a structured way of dealing with that, particularly through innovative approaches to energy storage, through smart grids, through inventive intelligence, through a whole lot of things that we want to bring in. Contained in that is a massive skills



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gap, to answer your question. We need to find a way of addressing that skills gap as the market grows, because the market could grow very rapidly.

Anna Soubry: That is very interesting.

Q184 **Chair:** I find it fascinating obviously that Dumfries and Galloway remains our net exporter of energy. Have you been impacted by the change of Government support through subsidy in the course of the past year? Has there been any impact on sectoral confidence or are we going to be okay?

Brian Richardson: To be honest with you, most of the renewables companies managed to get under the wire before anything really happened. There has been a view that, yes, it has impacted slightly in certain areas, but overall I don't think it has made a huge amount of difference. If companies really want to set up renewable facilities, they will and they will find a way to do it.

What is more important is that a far more strategic review is delivered of the micro-grid, that is the connection of the various groups; how we are going to bring in the new opportunity for service companies so that the Scottish Power Energy Networks can become a new service company. That is going to happen soon. I am already involved in that. That brings with it tremendous opportunities for an area like ours. That is one of the directions we are looking to.

Anna Soubry: I was just going to say, Chair, if you are right and this is a new dimension to the local economy—there is traditional agriculture and tourism—I don't want to talk about Northern Powerhouses, but certainly this is Scotland's Powerhouse, potentially. That is what you are saying. Then you really do need an exciting different set of skills, don't you?

Q185 **Chair:** I am not sure all the gentlemen are aware that this Committee did an inquiry and report into Scotland's renewable sector, the impact that these Government policy announcements had on that sector in terms of confidence. We visited Orkney to learn more about their particular resource and how that was being brought to market. As a Committee, we were encouraged by the way areas—particularly, like Dumfries and Galloway—are able to take advantage of this resource on its doorstep. Is there anything more that you can identify that we could do to ensure that is supported?

Brian Richardson: Yes. I mentioned earlier the statement from Heriot-Watt University. This is a proposal to try to illustrate the point. The statement is this: "For the first time in the UK, a centre is proposed that facilitates and enables multi-disciplinary research on bespoke applications of embedded intelligence". Those are the things in your car, and so forth, "The ability to create resilience and sustainable communities that implement the fairer Scotland vision require an understanding of data and digital technologies. The centre for embedded innovation could connect through digital technologies remote and distributed populations



within Dumfries and Galloway and the Borders. The centre could also support a culture of innovation, driven by data, delivering skilled graduates and technicians prepared for the new challenges of industry. The prosperity of Dumfries and Galloway and the Borders will become dependent on its ability to engage with digital technologies” as I said earlier, “The centre for embedded innovation could provide an environment of engineering and enterprise that supports local wealth creation”.

Chair: I am grateful, thank you.

Q186 **Deidre Brock:** Further to skills—and it does sound like there are some promising developments in that area—we have been told in the course of this inquiry that across the UK, including Scotland, businesses are over-reliant on low-paid, low-skill workers on flexible contracts and that staff are, in effect, almost treated as disposable. Are your members more reliant on this sort of flexible working, part-time workers, than they were in the past, do you think?

Jack Clark: Within the Borders region, there is one major business to the east of the Borders that is pretty reliant on Eastern European staff. The vegetable industry is reliant. I would say these are just the two sectors. Having said that, they will not be leaving their employees short-changed, they will be getting properly rewarded for their efforts. But whether there would be the expertise locally that can handle these jobs, that is another subject. Again, that comes back to what we are saying about youngsters out of school, straight into an occupation through apprenticeships, the whole thing is linked together.

Q187 **Deidre Brock:** Mr Simpson or Mr Richardson? I wonder about the sort of tension that exists—does it exist?—between what businesses want from the labour market and what is in the interests of workers.

Jack Clark: No, I would not say that we don’t hear of it. That is through our membership and the wider business community with whom we are in contact on a regular basis every fortnight, but I think the question to ask is: who would fill these jobs if these people were not there? That would be the way to look at it.

Q188 **Deidre Brock:** Again, Oxfam Scotland has told us about how important it is that workers have a decent wage, job security and are provided with basic work rights, but they said in many cases that employment has failed to provide those adequate working conditions, so do you think that current employment law meets the needs of businesses and workers in the south of Scotland? Are there any areas where employment legislation either acts as a barrier to the success of businesses in the south of Scotland or it fails to provide employees with basic or adequate basic rights?

Brian Richardson: We have started to address that. I mentioned earlier there are three areas: productivity, innovation and internationalisation. In the area of productivity, we recognise there is a need for a programme.



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We are working with HSBC. It is called the Financial Wellbeing programme. What we are looking at, in association with HSBC, is a way of giving employees the platform they require to take action through enhancing their knowledge and understanding on key financial topics and, also, some personal information about finance. That is part of the equation we feel is missing.

It is not necessarily exploitation of workers by poor laws or systems; it is the fact that, in many cases, the people themselves need some insight into their own finances and the finances of the organisations around them. Something we are trying to set up is the Financial Wellbeing programme with HSBC.

Bruce Simpson: I don't think you will find any business in the Borders, Dumfries and Galloway anyway, who are going to say that there is too little legislation. It is always too much. With hotel and catering in particular—just going back to my days at university, four years of university—I did three years of law and a whole lot regarding hotel and catering. In fact, the legislation regarding employment has probably quadrupled since those days.

Q189 **Deidre Brock:** Lastly, a number of our witnesses have argued that an important feature of a successful economy and successful companies is that they tend to allow for greater involvement of workers in the business and have higher wages. Do you recognise that as a potential benefit, and is that something that you feel that businesses in the area are starting to look at in terms of providing better jobs?

Jack Clark: I would go so far as to say that, within our region, employee participation within these different sectors is quite common. Even through my own personal experience of 48 years in the livestock business, the involvement and participation of employees within the company is invaluable in ensuring that company runs efficiently and it is not for people to be issuing orders to people who have never done it themselves. Again, we go back to a DYW apprenticeship and start at the bottom and work your way up.

Q190 **Anna Soubry:** I was not sure if I got the figure down, Mr Clark. I think you told us that it was 92% of businesses employ five or fewer people. Is that right? Then you gave us another figure about the percentages.

Jack Clark: That is correct, yes.

Anna Soubry: What was the other one? I missed that.

Jack Clark: In fact, we only learned this last week, it is about 94% have 10 employees or fewer.

Q191 **Anna Soubry:** Am I right in thinking that a large number of those are small family-run businesses?

Jack Clark: Some of them would originate as a one-man band and have expanded.



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Q192 **Anna Soubry:** Is it your experience that often small businesses absolutely rely on doing the right thing by their workers because, if they don't, they don't survive?

Jack Clark: Yes, and bad news travels quickly.

Q193 **Chair:** There are a couple of things that strike me about the labour market in the south of Scotland. One is the fact that employment rates are higher than both the Scottish Borders and Dumfries and Galloway than the rest of Scotland, which is something we think is good and to be welcomed. But there does seem to be a significantly higher level of low pay within that employment. I don't know if any of you have a view about why that is the case and, again, in your view, what could be done to improve that situation?

Bruce Simpson: You are talking about two industries that are renowned for low wages: that is hotel and catering and agriculture. Having said that, things have improved in my time, basically, over the last 25 years or so. It is the successful businesses, the ones of quality, who tend to treat their workers and have more worker participation than the others. As I say, it is a small area. They tend to be quite well-known and people stay clear of them.

Brian Richardson: Could I raise a difference between Borders and Dumfries and Galloway in relation to the profiling? We have 726 businesses that employ more than 10 people or have a turnover of greater than £100,000 a year. Some of them are quite reasonably-sized, significant businesses employing several hundred people. That is 726 out of 4,000 active businesses. We don't have the same profile as Borders, I should stress. That gives us a slight advantage, because we have a core group of businesses who are able to respond to the kind of initiatives that I have been talking about and are able to take a step forward in engineering, in embedded intelligence or whatever it would be, backed up by the tremendous opportunity of energy. I just wanted to make that clear.

Q194 **Chair:** What we are trying to get at here, and I am looking at the figures, for example, the median hourly wage is £10.01 in Dumfries and Galloway and £10.50 in the Scottish Borders. That compares to a Scottish average median wage of £12.17, so there is a significant fall back there. What we would like to explore with you is: is it because of the nature of jobs that are available in the south of Scotland, in the Borders and Dumfries and Galloway areas? If that is the case, what can we do as a Committee, as parliamentarians, to try to move the economy in the south of Scotland towards a high wage, high skill, well-resourced employment base and move away from the lower-wage economy we seem to have?

Jack Clark: Is it a fair point to make that it will be quite understandable that the wages in Edinburgh will be higher than what they are in Kelso? Is it quite a fair point to make that the wages in London are higher than what they are in Applewick, if you know what I mean?



Q195 Chair: Yes. That would be understood by practically anybody looking at the labour market, but what we want to try to understand, and what we are trying to look at, is how we transition from a situation where, if that is the case because of the types of employment there is in the south of Scotland, how do we transition that into a higher-wage economy? For example, we did a report on the creative industries and what we found was there were hubs in all sorts of parts of rural Scotland, which were high value, high skill. Are there things that we could do, for example, as parliamentarians, this Committee, that could assist the establishment of businesses such as these?

Jack Clark: Would I go so far as to say that a business has to be profitable before it can pay more to its staff? It is ensuring that these companies have the opportunity to make a profit because, at the end of the day, profit is the bottom line. Let that be through what rates practices are in effect, especially in the Border, where we are going from the Border into Northumberland. But profitability, if the companies are profitable, they will pay to have the right people to work for them. If they don't pay, they are not going to get the right people.

Q196 Margaret Ferrier: Just a supplementary. In a few words—I will come to Mr Clark and then Mr Richardson—why would somebody want to come to your areas and set up a business? What would attract them: knowing full well that there are staff and that they are going to be able to employ people?

Jack Clark: What would attract a business to come and start in our area? First of all, we demonstrate that we are user-friendly. I can quote and I can indicate a pharmaceutical company in Galashiels that is worldwide. The founder of that business came to the Borders because he liked the area. He liked the way of life. You may have thought from a business angle it was the totally wrong answer, but it certainly turned out to be a very successful company and continues to be a successful company.

Insofar as attracting companies into the area to participate in the business sector, we refer back to connectivity. Bruce has already said they go up the A1 and come down the M74. We don't have a dual carriageway within the region. Broadband doesn't work out where I live at 1,000 feet at the top of a hill between Galashiels and Lauder, or it works, but spasmodically. Secondly, the connectivity with mobile phones from Galashiels to Blainslie, which is a village between Lauder and Earlston, there is no signal. We have to make it attractive for businesses to come in.

Q197 John Stevenson: Very quickly, Mr Clark, on that theme, we have looked at the cost of labour but, also, what is the cost of living like in the Border area?

Jack Clark: We used to have a saying, "Let your pocket be your guide" insomuch that the basics are fuel and food. Fuel costs within the region will be certainly higher than what they are in the city; food costs,



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although we are a major food-producing region, red meat, white meat and dairy products, in fact, will be no dearer than what they are in Edinburgh.

Q198 **John Stevenson:** What of housing?

Jack Clark: Of housing? First of all, there has been a decline in the number of houses built within the region. Those that have been built were built on plans that were laid many years ago, but since the recession there has not been the number of houses built. One of the reasons we hear from the construction industry is all to do with developer contributions.

Q199 **Chair:** Before we move on from this point—and it is a very interesting one for the Committee—do we have to accept that employment in rural situations will be paying less in terms of what people would expect in return for a day's work? Is that just an inbuilt feature that we have within rural Scotland, within the rural economy throughout the United Kingdom?

Brian Richardson: I want to illustrate a point. I used to work in economic development and worked in economic development for a long time. I worked in New Zealand in Canterbury, with the Canterbury Development Company. I worked for the New Zealand Government on regional economic development. The background is the Canterbury Development Company—in 1998 I think it was—decided to look at clustering and collectively how businesses could come together.

I don't know if you know the South Island in New Zealand, but it is a very, very remote area and had low wages overall. It had a university. It had a few things going for it. They then set up clusters of companies who are clustered with the West Coast of America, 14 hours' flying time away. They then set up a number of interesting opportunities. I think we all now know Canterbury. We know their clothing. We know their university. We know at least four or five other organisations that now trade globally. It all came from a meeting in 1998 around an ambition, an ambition to grow. The bottom line is that the overall net wage of people in Canterbury has risen to a national level from a very low base from a highly remote rural area.

Q200 **Chris Law:** That neatly dovetails into my question because my question was: what more can be done to create opportunities in employment, both individually or small businesses or organisations like yourself or even local and national Governments? You have just been talking about clusters there. Is that something you think would work quite successfully in the Borders regions?

Bruce Simpson: One thing we could have done would be to give more help to business start-ups. You will see from your figures that the number of business start-ups in the Borders has dropped about 4% or 5%, I think it is. I am particularly thinking of mentoring here. I deliver the Scottish Enterprise mentoring scheme for the Scottish Borders. It is a scheme that is run and delivered by the 26 Chambers in Scotland. However, the



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condition attached to that particular scheme is that you have to have an aspiration to increase your turnover by £200,000 over a three-year period.

Now, the rural areas in the Borders are going to get very few of those. I must admit that the practices I have seen in the Borders, I am having difficulty as well, and I know other rural areas are. Because of that, ourselves and the Federation of Small Businesses and the Scottish Borders Exporters Association are putting a case to the Leader to try to set up a scheme that comes below that level, very much below that level, to help those people who want to get into business, or have an idea, but want to discuss it with somebody and somebody who is experienced.

We have heard a lot of talk recently about ageing population, how bad this is for the community and so on. If I can put a spin on that and say that you have people retiring who have a lot of information in their heads, their experience. If we can turn that around and get these people to share their experience with these kinds of people who want to set up their business and so on, that is a way of using the resources that we have. We have a lot of retired people in the Borders and some of the experience they have is tremendous and that can be used, not just forgotten about.

We can help new businesses to set up and those businesses that are set up, you can give them a mentor who can guide them in different ways, somebody to talk to. Not your bank manager—there are no bank managers here—but somebody who they can trust. Not saying you cannot trust bank managers but you know what I mean; somebody who you can trust who is not going to pinch the ideas you have, speak to them and give them the advice of what they have gone through it in the past and how to do things differently, to talk. That is what they want. That is going to help. Not just in the Borders but within any part of Scotland, especially the rural areas.

Q201 Chris Law: One additional question I would like to ask. We talked about the two biggest sectors in the Borders being agricultural and tourism. How much of the employment in that is based on seasonal work rather than all year round, and does that have an impact on attracting employees?

Jack Clark: The seasonal work within our region is basically in the vegetable industry. There will be fluctuations in the employed numbers then. But when you bear in mind that on every farm for every cottage there will be an employee, and some farms you will see six cottages so there will be six employees. Now these cottages are either lying empty or they have been sold or they are let and on farms with bigger tractors, bigger equipment there is likely to be one employee. A lot of them now, through economics, are becoming family businesses.

The seasonal job: let us look at agricultural as food production because, after all, we are an island. If you recall back to the Icelandic volcano that



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erupted in the month of February, within two days there was no lamb on the supermarket shelves because the planes from New Zealand could not come here. Ensuring our food security is another aspect that has to be borne in mind. Bearing in mind as well we are looking at employability. If farms are profitable they will employ people. On the other hand, if farms are food producers they have to be able to sell their product at a price that they can then reinvest.

We are informed and we are advised about the CAP support payments, bearing in mind, again, these payments are there to ensure that food can be produced at an economical price to the consumer. It is not there as income to the producer. It is there to ensure that it can be produced at an economical price to all of us here, so it is imperative that in the future there be support in that sector, and support being there, as I say, to enable a product to be produced because, if there was no support, that product would not be produced and we would find ourselves with no lamb on the shelves, beef could become scarce. In America, you see big feedlots of beef cattle; New Zealand has its sheep. It was very pleasing to see the New Zealand Minister here this last week, especially with the ongoing worldwide talks, including America too, we hope.

Bruce Simpson: Getting back to tourism again, in old parlance we used break down tourism into two: business tourism and leisure tourism. Leisure tourism is seasonal. We know that in the Borders. Come the winter time, this time of year, it will be fairly quiet for leisure tourism but business tourism is a different thing entirely. Business tourism is 12 months of the year and the more that we can increase the commerce in the Borders area, the better business tourism is going to be.

Q202 **Deidre Brock:** We heard from Mr Clark about a large pharmaceutical company that was providing a lot of employment, which was a positive development, but generally large businesses provide a lower proportion of employment and turnover in the south of Scotland than in Scotland as a whole. Do you think that employment and industry support should focus on these larger businesses, and trying to attract them to the area, or do you think the real progress is to be made in supporting SMEs and building those out of the area itself?

Jack Clark: There has to be confidence for a major business or a large business to come north of the Border to establish new business. Insofar as small SMEs are concerned, we do have a lot of these within our region. The bigger businesses, the more national or international business, it all percolates down the scale. It will go from the corner shop to the pie shop to the petrol station. Also, too, with our connectivity, in having the right connectivity and transport links, it is quite easy now for a CEO to be living in Edinburgh and have a base in Galashiels. Quite simple: it is only 45 minutes away.

Q203 **Chair:** Could I ask about investment in research and development, because I have some figures here that explain—perhaps you can tell me why this is the case—that in Dumfries and Galloway business spent £33



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per head of population on R&D. In the Scottish Borders, the figure is more encouraging at £63 per head. For Scotland as a whole, it is £162. Why is there less money being spent on R&D in the Scottish Borders and Dumfries and Galloway areas on research?

Bruce Simpson: Yes. This is quite a big issue and one I alluded to earlier with the work with Heriot-Watt and the embedded intelligence. If you go back to the history of the Highlands and Islands Enterprise, and if you compare the opportunity to attract projects with some intellectual aspect to them, the Highlands and Islands roughly have had eight times more opportunity than the south of Scotland to bring projects into their region, despite having very similar—

Q204 **Chair:** Why is that?

Bruce Simpson: It is because they were organised. They were organised as a distinct social and economically deprived area. The Highlands and Islands gathered their forces along those lines and presented their case to Europe.

Q205 **Chair:** Does this have something to do with the way the Enterprise Boards are structured and the support they are giving them?

Bruce Simpson: Yes.

Q206 **Chair:** This is a function of the Highlands and Islands Development Board as opposed to what was happening here in the south of Scotland, would that be right to say?

Bruce Simpson: That is right. It is a 20-year story. It is a drip-feed of lack of projects coming into the area. One of the things the Chamber is trying to do is to go to the Central Belt and say, "Look, bring your project here". That is what we have been doing. We have been successful with DYW. We went along there and, quite frankly, the DYW national panel said, "Look, we have never had anybody from Dumfries and Galloway in the last 10 years come to us and ask a question or ask for any projects, even though we have suggested a few. We don't know who you are. You have no advocacy here".

It took three months of discussion to build up the trust with the national panel that we could deliver the DYW programme. There is a long history of actual representation of the interests of the south of the Scotland to the Central Belt, and attracting projects that would allow the area to grow in different directions.

Q207 **Chair:** This is something that you do recognise now as an issue and what I am hearing is: you are seeking to address this by trying to make Dumfries and Galloway and the Borders areas an attractive place for investment in R&D.

Bruce Simpson: Yes, absolutely.

Q208 **Chair:** Last week we were hearing that a national investment bank



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should be established to address Scotland's poor record at private sector investment. Do you think that would help in some of these issues? Do you think it is necessary? In what way would a national investment bank be able to assist the development of businesses in the south of Scotland?

Brian Richardson: We are fairly replete with funding. There is a lot of funding around. I have secured a lot of funding through part of the Cambridge Sustainability Network, so I look at how funding can be delivered to energy projects, particularly. It is sad that the Green Investment Bank, in my opinion, has now been asset stripped or is about to be asset stripped. I think that in terms of it is losing its space in that public sphere and there is a certainly a need for a national bank.

One of the opportunities that are presented to us is that, if we do proceed into a Brexit situation, you can do certain things with your local economy that you simply would not be able to do in the past. For example, you can set up a local investment bank that can be interventionist. I worked extensively with West Yorkshire Enterprise Board. These kinds of facilities and these kinds of interventions were cut down by the EU from about 1988, so from 1988 onwards there was a prescriptive view of how economic regeneration should occur. I looked at the areas of innovation, of investment, of a whole load of things, and obviously tourism has been raised as well as one of the areas we have lost funding. My view is that, post-Brexit we could have some opportunities if we go in that direction.

Q209 **John Stevenson:** You have all talked about the requirements for infrastructure and the issues that surround that, so I don't want to go into much detail on those specifically because I think you have made it quite clear that that is an issue that you see for the south of Scotland. However, do you think the Scottish Government or the UK Government recognises those challenges of infrastructure in this part of the world, and, if they do, is either of them doing anything about it? I will start with Mr Simpson.

Bruce Simpson: I think they both understand; especially through this Committee they understand in Westminster. The Scottish Government, yes, I think they do because they are now thinking of setting up the South of Scotland Enterprise. Originally, after the meeting two years ago, we heard that what we wanted at that time had been thrown out by the UK Government.

The Scottish Government have come back in again and said, "We are setting one up", which has proven that both of them understand the problems we have. It is going to take time, as we always say. It is going to take time to sort this out, but if both the UK and Scottish Governments realise the potential that is sitting here between the Scottish Borders and Dumfries and Galloway, we might get things done a bit quicker.

Q210 **John Stevenson:** Following on from that theme then, Mr Clark, we have heard of two potential projects: supporting Carlisle Airport, which would benefit the whole region, and extending the railway line down through



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the Borders to Carlisle. Both of those are seen as beneficial to the south of Scotland. Do you see any ongoing co-operation between the Scottish Government and the Westminster Government in actually achieving either of those?

Jack Clark: Yes, we have quarterly meetings with our elected representatives that take place locally. No minutes, but we have a good conversation as to how we can help them and how they can help us. They are fully aware of connectivity and they are all showing a very keen interest in ensuring that attention is paid to the connectivity within our region. It is on the horizon.

Q211 **John Stevenson:** Is that seen by both Governments?

Jack Clark: By both.

Q212 **John Stevenson:** Mr Richardson, just finally, it is good to hear there is co-operation and interest from both Governments in the area. Do you see the border as a barrier in any way to co-operation and economic development between the south of Scotland and the northern part of England?

Brian Richardson: Speaking as someone who has family in Dumfries and Galloway and lived in Carlisle, I think there is a strange psychological barrier—I will be honest with you—of movement between north Cumbria particularly and Dumfries and Galloway. You have some strange anomalies. The biggest one is that tourism in the Lake District is about a million visitors a year with a tiny fraction of that in Dumfries and Galloway. You don't have to drive far to go into Dumfries and Galloway. In fact, the profiling of tourism activity in Dumfries and Galloway shows a reduction in numbers of visitors but an increase in individual spend. The patterns are quite strange.

What we have to do is come to terms with the market opportunities there are for, for example, building pathways on tourism into Dumfries and Galloway and leveraging people in from Cumbria. I have already talked about integrated operations in terms of the ability to cluster and bring agencies together in all sorts of areas: energy, tourism, creative industries; a whole lot of areas that we can address. I am particularly keen on internationalisation as well, which I think is a cross-border issue. For example, in our region we did some profiling work and we believe that at least 200 companies could develop an international dimension to their operations. At the moment, the activities on internationalisation are very low, less than 20 a year.

Q213 **John Stevenson:** Just quickly going back to Mr Simpson, it has been said that there is a view that the Treasury should step in and finance some of the requirements for infrastructure in the Border region rather than through the Barnett formula. Do you think that is the right approach?



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Bruce Simpson: I am afraid my knowledge of the Barnett formula is not brilliant.

John Stevenson: Effectively, it means additional support.

Bruce Simpson: If I can go back to a quick point about what Jack was saying about our elected representatives' meetings. We try not to work in isolation from other areas. We invite Anne-Marie Trevelyan and Rory Stewart from Cumbria and Northumberland to come to our meetings should they wish to do so. We have tried to open up the whole of the Borders to discuss it.

John Stevenson: Obviously, missing out Carlisle?

Bruce Simpson: Yes.

Anna Soubry: Oh, dear, you must change that.

John Stevenson: No, it is all right; it was just an aside.

Anna Soubry: He is the MP for Carlisle.

Bruce Simpson: But I am afraid I could not answer the Barnett formula question. I don't know enough about it.

John Stevenson: That was just additional funding into the Border area. That was what I was really trying to get at.

Jack Clark: I would go so far as to say, Mr Stevenson, any additional funding would be well used.

John Stevenson: I am sure it would. Thank you.

Q214 **Chair:** Mr Richardson?

Brian Richardson: I was going to answer the question on the infrastructure and the Barnett formula. I used to work for PA Cambridge Economic Consultants. We looked at the infrastructure in the UK. If you draw a line between Birmingham and The Wash everywhere south of that gains money from north of that line, so every area above that—the Midlands, north-east, north-west and Scotland—all contribute a very large amount to the infrastructure of the south of England.

In the case of Scotland, that is around about £2 billion and in the north-east of England it is about £1.5 billion. That is a very large amount in relation to the population. You have to take the Barnett formula in relation to that level of institutional drip-feed into the south-east of England.

Q215 **Chris Law:** As well as looking in this inquiry into sustainable employment, it goes without saying—given where we are at the moment—we are also looking at the impact of Brexit. Tomorrow I believe that reports are going to suggest we are leaving the single market, the customs union and the European Court of Human Rights. What thoughts do you have in terms of the impact on employment opportunities and



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also on your members that this is going to have?

Jack Clark: Could I start off by saying, Mr Law, it all depends on the employer? The employers are there; they are going to be employing people.

Q216 **Chris Law:** Can I touch on that point because you talked earlier about a large pharmaceutical company in Galashiels, is that right, which has a large percentage of influence through their relationship with the EU? That might be one example.

Jack Clark: I am aware that, yes, obviously, every business has to look wider and depending on the outcome or depending what we hear tomorrow, certainly looking ahead, bearing in mind £48 billion worth of Scotland's exports go to England and Wales and there is about £3 billion that goes to Europe—

Chris Law: No, I don't think those numbers are right.

Chair: Let me leave that there just now. Mr Law, are you finished?

Q217 **Anna Soubry:** If I may say, sorry, I think the point that Mr Law is trying to make is that the pharmaceutical industry, in particular, relies on our membership of the single market. It is critical, it is said—and I happen to agree—that membership of that single market is very important for pharmaceuticals. I wonder as a Chamber, the various bits and parts that you have, what messages you are getting back from your members as to what sort of deal they want as we move towards leaving the EU. How important is the single market, for example, and how important is the free movement of labour?

Bruce Simpson: The Scottish Chamber network in general came out in favour of remaining in Europe and we are very much aware that Scotland is a net gainer from Europe. This is a concern. We don't know what is going to be happening. We want to try to stay in the—

Anna Soubry: In the single market? Is that what you were going to say, the importance of the single market?

Bruce Simpson: We want to stay in the single market, yes.

Q218 **Chair:** In terms of freedom of movement, I was very surprised that a comment was made, at the lunch that we had, that there were very few employees from the European Union working within the hospitality sector in the south of Scotland. I cannot remember what the figure was. I don't know if it was a figure that you three gentlemen that supplied but is it not much of a feature, European nationals working in the hospitality and tourism sector here?

Bruce Simpson: Yes, there are a lot of European workers in the tourism industry in the Borders, but you must remember that tourism businesses in the Borders tend to be quite small. We have very few major tourism hotel companies in the Borders, which tend to employ a lot more overseas. These businesses in the Borders tend to be small family



concerns. It is a different type of tourism industry we have compared to other parts.

Chair: It differs greatly from my rural constituency in Highland Perthshire, which is almost totally dependent upon European nationals to staff the very many tourist businesses.

Jack Clark: I would be interested in seeing those figures.

Q219 **Anna Soubry:** You did say that you were having problems recruiting people into the hospitality industry, and now we know that you don't have many EU workers in that business. Is that because it is highly seasonal and maybe in Mr Wishart's area it is not as seasonal, it is more all-round work? Is there any link there?

Bruce Simpson: Again, you are getting back to business tourism and leisure tourism.

Q220 **Anna Soubry:** We would be interested to know if there is a distinction between being able to recruit people from the EU on a seasonal basis. The understanding is and has always been—if you take my part of the world, which is the East Midlands—you needed people on a seasonal basis to pick potatoes, beans, whatever, but that has now changed and it is less seasonal. It is polytunnels and so on, so there is no difficulty in recruiting workers. If we move to a more seasonal workers' scheme from the EU, we want to know: can we be confident we will still get the volume of people that we need or will there be difficulty because of the seasonality of the work? You could be providing interesting evidence to this Committee and perhaps beyond.

Chair: Yes, indeed, but I am afraid it might be for another session because we are out of time, fascinating though the question is.

Jack Clark: I have that written down here actually.

Anna Soubry: Maybe we could talk in another way, Mr Wishart.

Chair: It is something we might want to explore a little bit.

Anna Soubry: Can we have it in written evidence? I think it is very important.

Chair: Yes. There is an issue, which seems to suggest that there are different levels of employment across rural Scotland when it comes to support from EU nationals. Thank you ever so much, gentlemen. As usual, if there is anything that you feel that we have missed or anything you feel you could further give us to enhance our inquiry, please give your support to the Committee, but thank you very much just now.

Examination of Witnesses

Witnesses: Councillor Colin Smyth, Councillor John Mitchell, Alistair McKinnon and Linda Hanna.



Q221 **Chair:** Thank you to our guests for appearing before the Scottish Affairs Committee today. From left to right, could we possibly get names for the record, who you represent and a short opening statement? I put the emphasis on short given that we have four guests in this particular session.

Councillor Smyth: Thank you very much, Chair. My name is Councillor Colin Smyth. I am a councillor in Dumfries and Galloway where I chair the Economy, Environment and Infrastructure Committee. I am also chair of the South of Scotland Alliance, which is a partnership between Dumfries and Galloway Council, Scottish Borders Council, Scottish Enterprise, and business representatives who seek to raise the profile of the south of Scotland and issues surrounding the local economy.

Councillor Mitchell: Councillor John Mitchell, Deputy Leader, Scottish Borders Council. I have general remarks and brief other remarks.

I welcome the opportunity to give evidence today on this very important topic. Employment, particularly high value and more diverse employment opportunities, is critical to the future economic wellbeing of the south of Scotland. As with Dumfries and Galloway Council, employment and economic development is the top priority for Scottish Borders Council and its community planning partners. We are working with Dumfries and Galloway Council and Scottish Enterprise across south of Scotland on this issue via the South of Scotland Alliance.

Regarding employment opportunities, the Borders has come a long way since the 1,000 redundancies caused by the closure of Viasystems, which was an economic disaster for the area. I cannot stress enough how important the opening of part of the old Waverley rail route has been, not only in providing 1,000 jobs at the height of construction but the knock-on effects for apprenticeships, retail, B&Bs and various other local businesses and bacon roll sellers. Council Leader David Parker has the figure of bacon rolls sold etched on his heart, I believe. It has reconnected an area that had no railway stations within it, when the Highlands had 58, for example. It is, of course, a two-way thing, taking commuters, students, tourists and others to and from the Borders and encouraging house sales in our area.

We need to continue that work by reconnecting Hawick, which has had a very hard time economically since 1969 when the Waverley railway closed, and Carlisle with Tweedbank, and the mood music for this to happen is favourable now where it might not have been 10 or 20 years ago. As well as the £6 million invested in the Galashiels interchange joining rail to bus, cycle, and so on—again, jobs and apprenticeships—we now have the Great Tapestry of Scotland coming to that town; again, a £6 million project with 17 long-term jobs after construction, regenerating the town and improving tourism and other aspects. These would not have happened without the railway.



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The Borders has a great population but, principally due to the increasing numbers of over-65s, rurality is always a problem, particularly in terms of transport with east-west links particularly difficult. Unfortunately, many young people still leave the area after completing their education. We have some deprivation, principally but not exclusively in Hawick and Galashiels, but in my ward of Galashiels and Districts we are investing £11 million in a new primary school, which is really enthusing my constituents.

Agriculture, fishing, manufacturing and tourism are the principal areas of employment. Mountain biking is, of course, big business now. We have a low-wage economy, which is a problem, but quality of life counts for aught. Ours is a well-educated and skilled workforce with good and improving destinations for school leavers and, hopefully, the local authority and others working together can continue to improve matters. I am sorry if you have heard some of that already from the other witnesses.

Chair: Thank you very much for that very comprehensive overview of your area. Linda Hanna?

Linda Hanna: Good afternoon, panel. Thank you, Chairman. My name is Linda Hanna. I am with Scottish Enterprise and we are delighted to be here today to input to this Committee discussion. As you know, our role is particularly focused on how we grow Scotland's economy overall and about how we also think about that in terms of the different geographies and also the different sectors, so we are delighted to be part of the conversation today.

We think very much about that global competitiveness and we have heard a lot already from our colleagues in the Chambers who have talked about the economy, particularly in the south of Scotland. Thinking about how Scotland's economy plays out internationally, regionally and locally is what we think about every day. We think about the sectors that we work with and we think about the companies that we work with on the ground right across Scotland.

I would also reinforce and emphasise the comments made earlier around the need for more innovation, internationalisation and to grow Scotland's productivity. We know that Scotland certainly has some challenges—as does the rest of the UK—and we are very keen to see how that pulls through to sustainable and resilient employment and how that tackles some of the challenges that we see in inclusive growth. We are very keen and delighted to share some of the examples that we have and the work that we have been doing.

Alistair McKinnon: I am Alistair McKinnon. I am the location director for Scottish Enterprise in the south of Scotland. In that role, I work with the two local authorities and others in and around the South of Scotland Alliance, community planning and so on, and I also have involvement in terms of SE services out of our two offices in the south of Scotland.



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Q222 **Chair:** Thank you. Could I kick things off with our two local councillors representing as they do the two local authority areas in the south of Scotland? In your view, what do you believe differentiates the economy and the labour market in the south of Scotland and what differentiates that from the rest of Scotland? We will start with you, Councillor Mitchell, if that is all right.

Councillor Mitchell: I touched on the fact we are a relatively low-wage economy. We do have quite a skilled workforce. We are very much dependent on agriculture, forestry, things like that. We don't have the big conurbations. We don't have the Edinburghs and Glasgows. Our two biggest towns in Borders are round about 14,000 or 15,000. We do suffer from transport problems. If you want to travel north-south from Galashiels to Edinburgh, no problem by bus, for example. Car ownership in the Borders is not huge. Certainly, in my particular part, in some bits it is around about 30%, so we do have deprivation in that respect.

If you want to travel east to west, if you are travelling by so-called public transport, it is quite a difficult thing to do. It can take a day to get from Eyemouth to Peebles, for example. Buses are not always on time. I know that can happen in other rural areas, but we have the problem of rurality, which brings its own difficulties. We have the problem of big populations, a big populace, which leads to infrastructure costs. Lack of connectivity, obviously we are working on that with telecoms and that sort of infrastructure, but businesses in the Borders are discriminated against at present in the fact that we don't have the sort of connectivity that other areas do have. There are probably a lot more reasons, but those are the main ones.

Q223 **Chair:** That gives us a particularly good starting point. Thank you. Councillor Smyth, I also understand you are a Member of the Scottish Parliament for the south of Scotland, too, representing this area, is that right?

Councillor Smyth: That is right; since May, yes. In terms of the big economic challenges around employability in the region, as Councillor Mitchell said, we are a relatively low-paid economy. The recent ONS figures show an average weekly wage in Dumfries and Galloway of £454.60, and that is compared to a Scottish average of £535 and a UK average of £538.70. Low pay is a major issue.

There is a real challenge when it comes to outward migration of young people. Our positive destination figures are very positive, about 91%, compared to a Scottish average of 90%, but that actually masks the fact that a lot of young people leave the area because of a lack of opportunities. There is a real challenge when it comes to underemployment as well. Of the people that are in employment, only around two-thirds are actually in full-time employment. We have a real challenge when it comes to productivity in the area. Our GVA in Dumfries and Galloway is about 30% below the national average. In terms of long-term job trends—according to Skills Development Scotland's regional



skills assessment—both Dumfries and Galloway and Scottish Borders are due to have a decline in total numbers of jobs between 2016 and 2024.

There are a number of big economic challenges and, as Councillor Mitchell also added, we have challenges around the lack of investment historically in our infrastructure, both physical when it comes to, for example, our trunk roads, and most recently around our digital infrastructure and the need to improve that significantly.

Q224 Chair: It is probably not fair to compare the south of Scotland and its rural area with the central belt, for example, Glasgow/Edinburgh, but how do you feel you compare to the rest of rural Scotland? We heard a little bit about Highlands and Islands and the investment it was making in R&D, for example. Is there anything that sets you apart from the rest of rural Scotland and any particular difficulties and challenges that you may have?

Councillor Mitchell: I touched on the connectivity. Until we got the railway back to Galashiels and Tweedbank, we had not a single railway station within our particular area. I am sure the other rural areas do suffer from similar problems, but I think Brian Richardson touched on the good things that Highlands and Islands Enterprise has been able to achieve from their particular status. In general terms, I think most rural areas will have similar problems but of a different nature. If you have a big centre, you will obviously have a pretty good bus service link in the centres and then a better flow to that, whereas we only have the two big towns in the Borders. We don't have that particular express bus infrastructure and we did not have the railways until recently.

Q225 Chair: Councillor Smyth, is it mainly about the interventions of bodies like Highlands and Islands Development Board and the access to big centres of population? Is that what sets you apart?

Councillor Smyth: There will be similarities, but I think that is an important point about the infrastructures in place in the Highlands and Islands around, for example, Highlands and Islands Enterprise agency. If you consider one fact—for example, skills—in Dumfries and Galloway the percentage of the population that has high-level skills, degrees and so on, is around 6% now compared to the Highlands and Islands where it is twice that level. It is 12% there. There is clearly a difference. Is that historically because you had a university in the Highlands and Islands? That could certainly be one answer.

Historically, we have missed out when it comes to investment in infrastructure. If you consider the fact there is a commitment from the Scottish Government for a dual carriageway from Perth to Inverness, an investment of somewhere in the region of £3 billion over the next few years, in Dumfries and Galloway there are currently no commitments at all of any major investment within the A75, which is a major route to the ferry terminal at Cairnryan, or the A77 south of Girvan or the A76. There are no commitments there for major investment in infrastructure, so I



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think that is an historic issue for the region. There are similarities with other rural areas but I think we have been disadvantaged in a number of ways.

Q226 Deidre Brock: Councillor Mitchell and representatives of the Chambers outlined some pretty positive developments in skills development, in particular, that are going to be happening throughout the two regions. I wonder if, Mr McKinnon and Ms Hanna, you could outline the assessments that Scottish Enterprise has made of the economy and labour markets in the south of Scotland and perhaps you could give us some comparisons to the other areas where you work.

Linda Hanna: I will kick off and then hand over to my colleague Alistair. In the context we have already heard in terms of the south of Scotland, particularly the shape of the economy, it has lots of small micro businesses, not so many larger organisations and much less of a footprint of the companies that are investing particularly in exports and R&D. Some of the challenges that we have in the south of Scotland are about how we can see more of that investment coming, and how we can encourage more of the infrastructure that will encourage those businesses to come.

Some of the work that we are doing is about making sure that we are working with those companies who have the ambition and the opportunities to grow, particularly looking at how we help them to access new markets and how we help them to invest in research and development. One example of that recently: Helmet Integrated Systems in the south of Scotland is a company that we have supported around research and development. Companies like Spark Energy that have grown up and exponentially grown to scale in the Borders, we have supported them.

At the other end, Cocoa Black, a company in Galashiels—a very small hand-made chocolate company—is growing quite significantly in terms of the diversification of that business. Those are examples of businesses who have spotted a market opportunity and we are very actively and intensively working with them to do that. The challenge is that there aren't enough of them. What we are keen to do, and have been doing, is working with our partners to get more of that pipeline of businesses to come through the system. That is about those micro businesses growing and becoming small businesses and growing and getting bigger.

Those are some of the things that we are very keen to do. We recognise some of the challenges around connectivity and I guess that business environment. We have actively supported the work around Borders railway and mountain biking and bringing a sense of what the unique assets are of the south of Scotland, and we are very keen to make sure we do that.

In terms of other areas, if I think about the work that I do particularly in Tayside—I know two colleagues around the Committee are from that



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area—we have done a lot of work with the partners in Tayside area that have similar challenges around productivity in the Perthshire area but high unemployment in the Dundee area. What we have been looking at there is the investment in the waterfront, in Dundee the linkage of that to the V&A, and now the Tay Cities Deal that is looking at how the whole of Tayside can work together and connect to other parts of Scotland, so the connection of Tay Cities, for example, to Edinburgh or to others in terms of how that is going to help grow the area, and the point that was made—

Q227 Chair: Can I stop you there? When you mention Tayside—and this may be something we should have asked the previous panel—every single city in Scotland now has a City Deal. Is there a possibility that the rural areas, therefore, will be missing out on opportunities for investment and development if that is the case?

Linda Hanna: I don't think so. I think the point of the City Deals is certainly for the local authorities, working with the Scottish and UK Governments, to bring that forward with their partners. Many of those City Deals also connect to the other areas that are around them and, if anything, they don't exist as islands on their own. I think of the work that has happened in the west and the connection to the three Ayrshire councils. Also, those areas in Ayrshire are bringing forward regional partnership work and we have been working very closely with the councils in Ayrshire around that. I don't think it is about either/or and I don't think it is about the City Deals being in splendid isolation.

Some of the work that needs to be thought about right across Scotland, in terms of what type of economy we are building, is each of those City Deals, particularly from a sectoral perspective. We heard earlier about digital and data. Edinburgh is a hotbed for digital and data. That can connect to the gaming industry in Tayside and to app development. It can also connect to what we were hearing earlier around the aspirations that Heriot-Watt might have down in this area around that embedded intelligence. It certainly connects to some wider work that we are doing around manufacturing in terms of the embedded automation. There is lots already happening in other areas, which we are happy to share and can also compare and contrast what we see some of those things are.

Alistair McKinnon: To go to the root of this, the Scottish Borders and Dumfries and Galloway are rural areas and they demonstrate a lot of the same attributes as most rural areas across the UK. I include Highlands and Islands, and another good example if you look at the stats is Cornwall. It is very similar. At the root that is because of the—it is not the right word—demography of the industrial base, the business base, both in terms of the sectors and the sizes of businesses. I would describe the business base within the south of Scotland as a bit like a polo mint. There is a hole in the middle. There are thousands and thousands of very small enterprises and there are very few large enterprises and there is a



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hole in the middle, which is what you would expect to see filled if you have progression from a start-up all the way through to major employer.

Because of that and because of the sectors that we have, where there is growth it tends not to be in terms of economic impact. It tends to be in terms of jobs that are low value. Or where there is no growth you have, as I said earlier, thousands of businesses that are essentially trading in local markets and are essentially self-employed. They add very little to the economy. They don't grow and, therefore, you have a continuation of the structural failure that we have in the south of Scotland and you have in many other parts of rural Scotland.

Yes, the agricultural sector is important. It is a significant proportion of the businesses, but it is only 1% of the employment. It only delivers 7% of GVA into the south of Scotland economy. Manufacturing is much more important in the south of Scotland. That is manufacturing of food products or it might be textiles or it might be up the road here, timing chains for cars, or it might be armoured vehicles or it might be all sorts of things. There are a lot of hidden industries in the south of Scotland. Those are the ones that are larger businesses that, generally speaking, deliver higher GVA, gross value-add, into the local community. They are also the ones that tend to pay salaries that are equivalent to the Scottish average. It is the rest of the economy in the south of Scotland that pulls the average back. If you look at median pay in the south of Scotland, it is very similar to that you would find in Cornwall or Highlands and Islands.

Q228 Deidre Brock: In relation to the micro businesses that Ms Hanna mentioned before, how do you feel the Business Gateways are doing at the two councils? Obviously, they are vital in helping to support those businesses that eventually become those larger businesses that we want to see providing employment in the south of Scotland. Don't feel embarrassed about the fact there are two councillors sitting there.

Alistair McKinnon: No, I don't feel embarrassed about talking about Business Gateway. Indeed, prior to it being transferred to the local authorities, I managed it in the south of Scotland so I well understand the challenges and the issues.

Business Gateway is there to do three things: first, to help people start up business, any business; secondly, to identify those businesses that have greater potential than the average and—for the want of a better expression—hothouse them and try to get them to grow as much as they possibly can. The third job is to look at the existing business base and identify those businesses that have a greater potential to grow, greater than the average.

When I managed Business Gateway in the south of Scotland across Dumfries and Galloway and the Scottish Borders, I had a team of somewhere around about 14 staff. I very much doubt that the two local authorities have that number of staff anymore and I well understand why. It is not a mandated service that local authorities have to provide



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and, therefore, that has to compete with all the other things that local authorities have to do, which are statutory. I also recognise that it is a very difficult job to do. For-profit organisations in the south of Scotland, there is something like 25,000 of them; 12,000 self-employed people, which are essentially enterprises, and the rest split across the size bands. I think the number I quoted earlier was zero to nine employees at 94%; it is actually 89% but it is not a great difference. It is a very difficult job to do.

The challenge that the local authorities have, through Business Gateway, is to have enough resources on the ground to be able to go out there and help everyone to a certain extent but to help some people more and, therefore, to identify those individuals or businesses that have the potential to grow and then for those businesses to be passed on to us at Scottish Enterprise, which is how the system is supposed to work. The reality is there are not that many that are identified that have significant growth potential.

Q229 Chris Law: I want to ask an additional question. I have been involved with business most of my adult life, and I remember my days going to small business gateway and wondering how on earth to get from small business gateway to Scottish Enterprise to develop your business. I have to say I never succeeded at carrying them on, but the point I wanted to ask was exactly that. You are talking about a huge number of people who want to be at the start-up end running their business for themselves and for their families. You have also made the point that clearly it is under-resourced. We heard from the previous panel that it might be an idea to have people who have retired, who have lots of experience that they are able to contribute. What way do you think Scottish Enterprise could engage with those people and bring them in at that level where people are beginning and perhaps don't have business experience?

Alistair McKinnon: May I remind you Business Gateway sits as a service managed and run by the local authorities? That is the first thing. The challenge here is that, yes, expertise, people who have done it are much more credible and much more useful to a person who is starting a business or another person who is already running a business than a professional adviser. Having done it is always much more credible and much more useful.

Scottish Enterprise funds Business Mentoring Scotland across the whole of Scotland. It is contracted and delivered through the Chambers in partnership with the local authorities and Business Gateway and, indeed, ourselves. It provides mentoring support to businesses of all levels that have the aspiration to grow their turnover by £200,000 over three years. To my mind, that is not a huge turnover growth over three years. Yes, you could change the criteria and say it is to any business, but that would be extremely expensive to organise and run across the whole of Scotland. I don't know who would be able to fund it currently.

Q230 Anna Soubry: I was going to ask much of what Chris has already asked,



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Mr Wishart. I am intrigued by these gateways, but they are run by the councils. The people who are employed, are they people who have run their own businesses in the past?

Alistair McKinnon: It varies. Some have and some haven't. I don't know if Colin knows that offhand. I know that when I ran it there was a mixture. Some people were early retired, some people were professional advisers, so they had been in teaching or academia or something, but many of them had been running or, indeed, actually still ran their own businesses.

Anna Soubry: Maybe Councillor Smyth can help us from his experience, please.

Councillor Smyth: It certainly varies. One change that Dumfries and Galloway Council made recently is we brought the Business Gateway in-house. Previously, it was a commissioned service and we had a contract. We brought that in-house to the council. That provides a bit more flexibility. It allows us to incorporate it more with our wider economic development work. In terms of the people employed by Business Gateway it will vary.

For example, we recently carried out some work providing specialist tax advice to businesses in the area, so that was obviously a tax adviser that carried out that work. Some people have been in business, others are economic development advisers. It does vary because the range of advice that is provided to businesses is wide, everything from human resources to business plans, for example.

Q231 **Anna Soubry:** They can advise somebody on their tax affairs. They can give them advice on employment matters. You will tell me what the fundamental purpose is. Is it not to encourage the very small, the new self-employed, to scale up and then move on? Is that not what the aim is?

Councillor Smyth: The range of advice is quite significant, so you are correct. It could be HR. It could be tax. It could be around developing a business plan. It could be around growing the business. For that 6,000 businesses in Dumfries and Galloway, 89%, as Alistair said, employ 10 or fewer people, so there are an awful lot of small businesses out there that require sometimes even the most basic advice. It isn't just about new businesses, it is about existing businesses and trying to grow and support those existing businesses. It could be a whole range of issues, not just new businesses.

Q232 **Anna Soubry:** How many do you have in the gateway in Dumfries and Galloway? How many do you employ?

Councillor Smyth: I don't know currently because it is now being incorporated in the work of the council's wider economic development team, so we share a lot of tasks at the moment.



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Q233 Anna Soubry: It is controversial, I know, Mr Wishart, but in my experience—I used to be a business Minister—although I was self-employed I have never run a business, so I would not dream of advising people on how to run their business. What I found was that what business really like, especially new businesses, is when they can gain experience from people who do know what they are talking about because they are businesspeople, not people who have never run their own business. Is there any chance perhaps that you would look at using that money a little better, perhaps, so that somebody like the Federation of Small Businesses might give people an awful lot more advice?

Councillor Smyth: It is important to point out Business Gateway works very closely with a whole range of organisations. For example, recently in Dumfries and Galloway we ran a Business Week, which was a series of events working in partnership with the Federation of Small Businesses, the college, the Chamber of Commerce as well, providing advice, bringing in people who were very successfully running some very large international corporations to give advice to local organisations.

A key part of the advice that Business Gateway provides is events that businesses locally can come along to and hear from people that do very successfully from outwith the region run businesses. I would not like the impression to be given that it is not people who are qualified in running businesses that are providing the advice. That is certainly not the case.

Anna Soubry: It is probably for another session, Mr Wishart.

Chair: I know Ms Hanna is keen to come in, if you could be as brief as possible because we need to move on.

Linda Hanna: It was just to add that the Business Gateway and the enterprise agencies are not alone in trying to support that start-up and entrepreneurial and enterprise culture in Scotland. As Colin has talked about, what we all do very effectively is working in partnership. A big part of this is not just about the public sector. It is about the private sector. In my time in Scottish Enterprise since I have been involved in this, we have seen a big shift in, for example, online support that is available for starting a business, so those digital coaches, which links to the conversation that happened here earlier around digital connectivity. If you don't have access to that, that makes it harder.

Certainly, 10 years ago that whole accessing information online, people did not want to do that, whereas nowadays that is the case, particularly with younger people coming through. That blend of what you can access yourself and what the private sector, particularly the banks and intermediaries, now provide for free. It is about making sure that we harness all of that and about where the public sector needs to add to that, particularly through the Business Gateway or the enterprise agencies. We do that as efficiently and effectively as possible, including connecting that to our international connections. I think that is the thing for us is about how we have that blend and how we make much more of



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online provision of services to make sure that more and more people are able to access that information and advice.

Q234 Chris Law: We have obviously touched throughout the session on infrastructure in the south of Scotland, the two key areas obviously being transport links and electronic connectivity, ie broadband, and the impact it has. Obviously, the UK and the Scottish Government have a role to play as well as local government. I want to know: do you get sufficient funding and is there a sufficient political will for what is needed in the Borders?

Councillor Mitchell: The political will is certainly there; we are spending over £8 million on it. We do have one major problem, which I believe is getting the right information from those who are providing all the services. That has been a constant thorn in our flesh. Without naming names, obviously, that is something that we do take up at the highest level and there does not seem to be the communication both ways that we would like at all times.

Connectivity has been touched on as a major problem and we are doing our best. We would like to aim for 100% and we will get 94%, but again what is the definition of 94%? Are you talking about individuals? Are you talking about businesses? Are you talking about apprentices? That perhaps needs to be clarified.

Q235 Chris Law: Just on that note, Councillor Mitchell, who should ultimately take responsibility for this? Is it an organisation or an individual or is it a collective responsibility that is required?

Councillor Mitchell: For lack of communication?

Chris Law: Yes.

Councillor Mitchell: My view would be it is an organisation.

Q236 Chris Law: Would anybody else like to answer that question?

Councillor Smyth: I will make a point. There has been a great deal of progress around reaching 94% of premises by 2017—now we are in to 2017—so that they have superfast broadband. There is obviously an awful long way to go. I think there is a big opportunity looking ahead. The Scottish Government have obviously made a commitment to reach 100%.

There was an issue around communications and information, which I think was missing from the previous contracts, but also an opportunity to say the Scottish Government have a commitment to regional cohesion as part of its economic policy and, when we hand out the contracts, instead of starting with the easy ones—the easy hits in the urban areas, for example—they start with somewhere like the south of Scotland, where we recognise we have some big economic challenges, so let's roll out the 100% superfast broadband to an area starting in the south of Scotland. That is certainly one way forward.



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As well as the broadband issue, there are obviously issues around mobile connectivity. For some people in Dumfries and Galloway 4G is a football pitch. It is certainly not something you are going to get on your phone any time soon. There is an opportunity, when it comes to the UK Government's emergency service mobile communications programme that is being rolled out at the moment, to try to play catch-up in the south of Scotland. There are opportunities there.

There needs to be a lot of work done to make sure that the benefits for businesses and for individuals, as well as for the emergency services, can be achieved. I know there is some work, for example, through the Scottish Futures Trust that are in touch with the UK Government over this issue, but I think there needs to be an awful lot more joined-up work to really pursue those opportunities to improve connectivity.

Linda Hanna: To add to that, in all our assessments when we look at what is going on globally, when we look at the sectors that we have in Scotland, digital and data that underpin a digital connectivity are absolutely going to be what is going to transform what those sectors are, both in terms of jobs that we might have now that will not be here tomorrow because automation is going to change the nature of work, but also in terms of the opportunities it could bring in terms of how Scotland can punch above our weight. When we look at our share of the sub-sea market globally, Scotland does very well and that is based on quite a lot of our oil and gas and our data expertise. The same is true potentially around financial services, but what we could look at is how that is going to transform Scotland. That is only going to work if we have digital connectivity.

It is not just about broadband; it is about mobile. When you talk to the banking sector, it is about mobile apps as much as it is about broadband. The digital connectivity is about having the digital skills and it is about helping businesses to be able to embed that in their business and be able to adopt that. Those are some of the areas that we are very keen to make sure that we are working with businesses on right now and then make sure that that is going to translate into jobs. That is not just about the economy, it is also about health. It is about social wellbeing in terms of digital health. There is a broader piece in terms of the inclusive growth that has been talked about in terms of what that means for an area, so there are broader spinoff benefits, including some of the business opportunities that go with that, once that begins to be rolled out.

Alistair McKinnon: Could I add something to that? Superfast broadband, while it is good, is not anything wonderful. It is just the south of Scotland catching up with more civilised parts of the UK.

Anna Soubry: A little harsh.

Alistair McKinnon: If the south of Scotland wants to succeed, it needs to get some form of competitive advantage. One of the areas of competitive advantage would be to leap the next iteration of broadband



and be looking for hyperfast or whatever it is, not everywhere but just in certain locations, certain employment locations. Then you could say to an employer, "You can get better connectivity here than you can get in central Edinburgh"—maybe not better than central London but central Edinburgh—and then give people a compelling reason to locate themselves here. While the work that is ongoing at the moment about superfast is good, we need to raise the ambition significantly and pursue that as part of the competitive proposition that the south of Scotland could articulate.

Chair: I wonder if we are running out of adjectives for broadband. We are up to superfast. Maybe we could just call the next one "good" and work our way up again.

Q237 **Anna Soubry:** As opposed to less than average. That is the reality of it. Can I ask you this—and I am sure you will be honest with me—when it comes to employment, when it comes to business and all of that, where do you look for the driver of things? Is it to the UK Government or is it to the Scottish Parliament? Councillor Smyth, sorry, you are at the end there, so I will pick on you first.

Councillor Smyth: Being a Member of the Scottish Parliament obviously puts me in a difficult position to answer that. It is a combination of both. Realistically, when it comes to investment in infrastructure it is now very much a Scottish Parliament investment in trunk roads, investment in superfast broadband. We have just touched on mobile connectivity. That is very much an issue that we are lobbying the UK Government on. It does vary from area to area. A big piece of work that we are looking at, at the moment, is obviously the enterprise and skills review. That is obviously a Scottish Parliament issue. It does vary a bit but probably more so towards the Scottish Government when it comes to investment in infrastructure.

Councillor Mitchell: We are probably something similar, although who pays the money calls the tune at the end of the day. At present, we get the bulk of our finances from the Scottish Government in terms of the council, but we also get a huge amount of money from Europe. You touched on Brexit earlier on and we seem to be all right up until 2020, but after that what happens? Do we lose those many millions that at present benefit our agricultural and other sectors? Yes, it is absolutely right to say that we look to both Parliaments and, indeed, the European Parliament.

Linda Hanna: Clearly, we are an NDPB so we look very much to the Scottish Government in terms of Scotland's economic strategy and where funding comes down from the Scottish Government. Clearly, we benefit as well around European funding, so we are very much part of that environment and looking at where the opportunities are as well as the wider portfolio that we have around investments and other things.



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For us, it is very important that we are thinking about: what is going on globally, what is going on in Europe, what is going on in Scotland and how that is nested very much in terms of the opportunities in the UK. That is partly because it is not just about where we get our funding from. If we are not able to get a jigsaw together in Scotland about how together we add up to something bigger for Scotland, working with the local authorities around City Deals or others, then it is about the combined nature of that investment that drives the growth in Scotland.

Anna Soubry: Councillor McKinnon?

Alistair McKinnon: I don't have anything to add to that.

Q238 **Anna Soubry:** Can I ask you this: do you think the UK Government understand the particular needs—if there are any—of this part of Scotland?

Councillor Smyth: I don't think they fully do. The argument will be that a lot of the issues are not their responsibility but a number are. Rail infrastructure, for example, most of the trains that go through the West Coast Main Line—and Lockerbie railway station is very important to Dumfries and Galloway—are railways and rail companies that are basically covered by the UK Government.

It is appalling that businesspeople in Dumfries and Galloway cannot get an early morning train direct to Edinburgh first thing in the morning. It is only an hour from Lockerbie railway station on the West Coast Main Line to the centre of Edinburgh, but you cannot get a train first thing in the morning. You have to change at Carstairs. I think that is appalling given the large number of people that commute. There are areas that could see significant improvements that the UK Government have responsibility for, so I would say they don't fully understand the challenges facing the region.

Councillor Mitchell: I suspect it to be like the curate's egg: there will be certain MPs who take a great interest in Scotland, know all about Scotland and are very interested in Scottish affairs and do what they can for Scotland, and there will be others who don't have any particularly great interest. I am sure most MPs work in the same way as Scottish Borders councillors. We have a parochial interest but we are also told all the time, "You are Scottish Borders councillors. You take the interest of the wider area". It would be the same for the UK Parliament. It has to take all of the area they cover into view, and the same with the Scottish Parliament. Obviously, we all have our personal views as to who is good, bad or indifferent but, in general terms, they have a job to do and I hope they do it.

Q239 **Margaret Ferrier:** My question is to Mr McKinnon and Ms Hanna. One of the key themes that have come out during this inquiry is that businesses in Scotland and across the UK are over reliant on low skilled, low-paid workers and that staff are treated as disposable, rather than a resource



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that should be invested in. We heard some ideas about that earlier today. What do you do to make sure that the support you are providing is creating high-quality jobs for Scottish workers?

Linda Hanna: The work that we do with companies particularly looks at: what is their ambition, what is their leadership, how do we support the company to make sure that, in terms of what they are looking to do to get products to market, that is going to be sustainable? As part of that, what we will do with the company is look at how they are going to do that, so how they are designing jobs and how that is then going to be translated into the skills that people will need to do those jobs, and then supporting the culture within the company to engage with their employees.

This year we have implemented a new service called the workplace innovation service, which is about employee engagement: talk to your employees, listen to your employees, get ideas from them, and make sure that you are then looking at the way that jobs are designed and how all of that is structured in the workplace. We have implemented that this year. It is brand new.

We also make sure, when we support companies through regional selective assistance that supports jobs, that that pays the living wage, so we are very clear in our support around that. We raise awareness of the Scottish business pledge, which has nine elements, which is both around competitiveness but also tackling inclusive growth. It is about both of those things, so we raise awareness of that. We have a sense with the companies that we work with of where they stand on those, how far along that journey they have come in terms of those kinds of practices. Living wage, zero hours contracts, innovation, international, are all part of that. We talk to companies about those.

We actively participate around developing Scotland's young workforce. You heard about the group that is down here in the south, but we are actively supporting that at a national level. We have implemented all the recommendations that we said that we could do to support that, including again for all the projects we support that create jobs. We ask those companies to invest to create an invest in youth policy, which might either be about employing young people or about engaging with their school or about mentoring young people. We support those companies to do that, to try to create workplaces where the companies are thinking about the talent within the workplace not as a disposable asset but very much as the resource that they have to grow the business.

An example of that in the south would be Berwickshire Housing Association, where we have supported the leadership of that organisation. We have done some of that work around workplace innovation and they brought forward some ideas. As a result of that, we have directly invested through the Scottish Investment Bank in the housing association and they are going to be investing in a community windfarm. The returns from that community windfarm are going to fund



housing. We supported the leadership. It created ambition. We got ideas and we have supported that in that integrated fashion.

Those are some of the types of things that we would do. We are also in some of the key sectors that you mentioned earlier: food and drink, tourism and construction. We worked very much with the industry leadership groups to pull together a productivity plan for their industry and really by the industry for the industry, because it is not about us.

We supported them to think about what the actions are that would drive productivity in those industries and, when they refresh their industry strategy, how they can embed approaches around diversity and workplace practices into that strategy. That is ongoing just now around food and drink and I know is going to be happening in construction as well. What we have tried to do is think at an industry level, think at a local level, and in every company that we work with be having these conversations with them about the types of things that we know make a difference.

Alistair McKinnon: I suppose the other thing I would want to add is, in a nutshell, Scottish Enterprise wants to work with successful and sustainable businesses. For a business to be successful, they can do the disposable employee thing. If they want to be sustainable and successful, they need to recognise their employees as assets and invest in them and have them participate in productivity improvement or innovation activity and general ideas about how to move the business forward and, in doing that, the business will be successful and sustainable.

Q240 **Margaret Ferrier:** When you talk about all these projects, how often do you check in with a lot of these employers? Once you say to them, "This is what we are expecting"? You have said that a lot of them do listen and take ideas from their employees, is there any statistics around how successful that is? Do they implement anything that you speak to them about?

Linda Hanna: I don't have any statistics to hand but I can get back to you on that particularly. What I know we do is, in all our regular engagement with the companies we work intensively with, it is just part of our discussions with the company. We will have a plan of action to work with that company and we will be checking in on the things that we have talked to that company about that are part of their growth plan. We will be talking to them about that. If it is something we have funded—like regional selective assistance—that is milestone based in terms of what we fund. We don't fund anything upfront.

The company has to achieve a milestone before we will fund it. Again, we will be checking in: have they done what they said they would do? Have they reached that milestone? Then we would pay on that basis. We do it both through our regular conversations but also, if there is funding on the table, we will make sure that that absolutely links to the outcomes that



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we have asked them to do. I am very happy to share a wider group of examples if you want them.

Chair: Yes, please. That would be helpful if you could do that.

Q241 **Margaret Ferrier:** Before we go off that subject, you spoke about the living wage. Coming to Councillor Smyth and Councillor Mitchell, are the local councils accredited living wage employers?

Councillor Smyth: Dumfries and Galloway Council was the first accredited living wage employer in Scotland, so, yes, absolutely. I am very keen to see that rolled out across organisations that have contracts with councils now.

Councillor Mitchell: Ditto for Scottish Borders Council. We will encourage as many employers to take that particular perspective.

Chair: A quick supplementary from Anna Soubry.

Q242 **Anna Soubry:** Very quickly to both Ms Hanna and Mr McKinnon—I don't mind who answers it: do you have any evidence of any Scottish employer who considers their workforce as disposable assets coming to your good selves to seek your advice?

Linda Hanna: I don't.

Alistair McKinnon: I have no personal experience of that ever happening.

Q243 **Anna Soubry:** No. Would you agree with me that it is very unlikely that such a business—if indeed they exist—would come to people like yourselves?

Alistair McKinnon: It would sound counterintuitive for them to do so, yes.

Q244 **Margaret Ferrier:** In the previous panel, and I think we are talking about going back to 2007, the Committee heard that the Scotland-wide focus of Scottish Enterprise meant that the specific needs of this part of Scotland were overlooked. In your opinion, is that a fair comment? If it is, what have you done to respond to these concerns? Earlier, you mentioned Tayside, Perthshire and Ayrshire, but we are in the south of Scotland today, so we want to know what Scottish Enterprise is going to do, in conjunction with other people in this room, for this particular area to promote it and help it progress.

Alistair McKinnon: Maybe the first thing to do is to refresh the history of this. In 2008, we moved from a situation where Scottish Enterprise had local enterprise companies whose task was to deliver a business plan focused on a particular geography, in this case the Borders and separately Dumfries and Galloway. Up until that point, that was the situation. In 2008 that changed. The Scottish Government repurposed Scottish Enterprise with the mission still to have a presence in all parts of



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Scotland but primarily—in shorthand—its mission was to deliver the best opportunities for Scotland plc as a whole.

Since then, within the south of Scotland we have been looking for opportunities to work on with our partners in the geography. There have been a number that we have been working on in the past three or four years. The Borders railway was mentioned. Scottish Enterprise did much of the early research work to make the economic case to see that investment happen. Since then, since it opened, we have been working with Scottish Borders Council, Midlothian Council and others in and around—it is an unfortunate expression—exploitation of the line in an economic sense, both in terms of tourism opportunities up and down the line but also in the sense of potentially housing, industrial and other developments up and down the line.

With Scottish Borders Council at the moment, we are working on a plan for Tweedbank, which is the industrial estate, which is the current terminus of the line. We have plans on this stop, once the council has decided about how to make some land available to us, to build a bespoke office building immediately adjacent to the station. We are also working with Scottish Borders Council in relation to the existing industrial estate and how it can be further redeveloped.

If I switch across to Dumfries and Galloway, what we have been doing most recently in Dumfries and Galloway with the council is: we did a study into the economic opportunities up and down the M74 corridor and, indeed, identified a couple of potential areas to pursue, the first being the Chapelcross site and the repurposing of that ex-nuclear power station site for further economic development perhaps round about energy but also potentially other sectors.

We have been working with Dumfries and Galloway Council as well, and with the account-managed companies in and around Dumfries, about how to begin to unlock some of the business premises problems that are in Dumfries. Essentially, the solution might be some sort of domino project where moving one company allows another company to move in behind it and free up premises. Those are the strategic sorts of projects we have been working on.

Going back to Business Gateway and indeed the council itself, we work closely in terms of our account-managed portfolio. Where we have knowledge of an account-managed company that could benefit from local authority assistance, whether or not the company is distressed, we work closely with them to try to solve that particular issue that the company may have. Colin mentioned Business Week. We have participated with the council in the Business Week and, outwith the Business Week, have organised things like Acas activity within the south of Scotland to help local companies understand employment legislation and the opportunities of investing in their staff.

Q245 **Margaret Ferrier:** I know we have touched on tourism quite a lot and



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you have spoken about Business Gateway. What kind of relationship do you have with VisitScotland when it comes to tourism?

Alistair McKinnon: Our relationship with VisitScotland tends to be more about strategic initiatives. It would be things like the railway corridor project or another one might be around mountain biking. VisitScotland will tend to have a direct relationship with the council around individual companies, for example. Where we would tend to cross over and have a three-way conversation might be around—you will have heard of—Wigtown Book Town, for example. Those sorts of activities where we can bring something to it, from the larger business point of view, and the council obviously has a geographical interest as well as a proposition interest.

Q246 **Margaret Ferrier:** Councillors Mitchell and Smyth, a very, very brief, quick answer. Are you getting the support that you feel you need from VisitScotland for this area?

Councillor Mitchell: If I can answer first, the short answer to that is: not all that we would like. It is making an important contribution to the south of Scotland through its support for account-managed businesses and business projects, and we have worked well with South of Scotland Alliance across both areas. In a lot of ways, we could see that, if it was done differently, it could be done differently from our perspective as well and that locality might then be an improvement. In fact, that is a submission we have made, as I understand it.

Councillor Smyth: I think there is recognition in the enterprise and skills review, with the proposal for a south of Scotland enterprise vehicle, that there are significant improvements that need to happen. There is no question about that.

Chair: We have a few more questions. I know we have a biggish panel. If we could have shorter questions and shorter responses it would help us get through the whole agenda.

Q247 **John Stevenson:** I will ask quick-fire now, if I may. Ms Hanna, what is the budget of Scottish Enterprise?

Linda Hanna: Our budget is around £300 million, which is made up of—

Q248 **John Stevenson:** It is all right; I just need the global total. That is fine. Do you know roughly how much is spent on the south of Scotland or is that impossible to tell?

Linda Hanna: Not off the top of my head but I can get you those figures.

Q249 **John Stevenson:** That would be very helpful. The Scottish Government are proposing to create some sort of new entity to deal with the enterprise and skills needs of the south of Scotland. Given what Mr McKinnon said earlier, is there any need for such an organisation given the fact that you already exist?



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Linda Hanna: What is important for the south of Scotland is to look at an ambition about how this area can transform. It has already been recognised by Ministers that there is an opportunity to do more in this area.

Q250 **John Stevenson:** Is that not what you are meant to be doing?

Linda Hanna: It is, but we don't do that alone. I think there is an opportunity to think about what those relationships need to be.

Q251 **John Stevenson:** If we are creating another organisation to look after the south of Scotland, does that say that you failed?

Linda Hanna: I don't think it does. I don't think it says that anyone has failed. It is taking recognition that—

Q252 **John Stevenson:** Why do the Government feel the need for a new enterprise given the fact that you already exist?

Linda Hanna: In terms of the recommendation from the Ministers, I think there is recognition that what the south of Scotland needs to do is more than is currently being done. It is about taking a long, fresh, hard look at that and about using the expertise to—

Q253 **John Stevenson:** Sorry to be so quick. Therefore, you think they will have to add additional resource into this rather than taking resource from you?

Linda Hanna: I don't know. What I think needs to be done is that that process is already under way, that work is being kicked off in phase 2, and we have all come to the table as partners who work well together with an open mind about what needs to be done, but in the context of what needs to be done overall in Scotland.

Q254 **John Stevenson:** Thank you, that is fine. Turning to the councillors, the Borderlands initiative has been well received and considered to be a very good report and something that needs to happen. I will start with Councillor Smyth. Can you tell me anything that has actually happened?

Councillor Smyth: Are you talking about the challenges, I have to say, in terms of the Borderlands report from the Scottish Affairs Committee or the Borderlands work that is taking place across the six local authorities?

John Stevenson: The work that you as councils have taken.

Councillor Smyth: My take on it is that this development is almost a project by project arrangement. It is quite clear that trying to herd six local authorities around the same sort of overall project is not going to work, so it is important to have, for example, Dumfries and Galloway Council and Carlisle City Council working when it comes to—

Q255 **John Stevenson:** That is fine. Can you name any initiative that has actually happened?

Councillor Smyth: In the Borderlands?



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John Stevenson: Yes.

Councillor Smyth: No, I can't because I don't think that it is at that stage, absolutely not. I am of the view that it has not developed to the extent that it should.

Q256 **John Stevenson:** On that basis, Councillor Mitchell, is it worthwhile, the Borderlands initiative?

Councillor Mitchell: It is absolutely worthwhile. I have mentioned the concept of the railway returning to Hawick and Carlisle. As far as I am aware—because I have not been involved with meetings—officials and Members have met and there are good discussions going on.

Q257 **John Stevenson:** So, although nothing has been done, you think it has a future?

Councillor Mitchell: Absolutely, it has a future and definitely Carlisle is on board with the railway, as I say. That to me is the big thing.

Q258 **Chair:** Can I just ask—because we were not clear in the conversation we had around lunch—who is responsible for the Borderlands initiative? Who is in charge?

Councillor Smyth: It is the six local authorities working together. What interests me is that—

Q259 **Anna Soubry:** Six people in charge?

Councillor Smyth: Well, six, but the reality is that it is organisations working together. For example, we have a very successful South of Scotland Alliance, which Scottish Borders and Dumfries and Galloway have worked together on for a significant number of years and have had a lot of successes around investment in broadband, for example. That is a good model. Nobody is in charge of it. It is a standalone organisation.

Q260 **Chair:** Therefore, what resource does each local authority give to this initiative? Is there a personnel resource attached to it, too?

Councillor Smyth: The officers of the council are very heavily involved in discussions across the board. I think what interests me is that the Scottish Government have said they support the Borderlands initiative, so have the UK Government. They have not decided what that means in terms of support. There is nothing that has come to the table from either the UK or the Scottish Government when it comes to Borderlands. If they are in favour of it, they need to tell us exactly what they want it to achieve and what they want to—

Anna Soubry: That is a good point, yes.

Q261 **Chair:** Do you have a view about what is required in order for this to progress? We did this report a couple of years ago. I don't know if anybody here gave any evidence to it. We think it is a good report. We think it gives a reasonable blueprint for how co-operation could be



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secured across border and progressing some of the agenda in addition. What do we need to do in order to try to see if we can make some progress with what has been recommended?

Councillor Smyth: The short-term priority is making sure that we develop and shape the proposal for a south of Scotland enterprise vehicle. That is the priority for Dumfries and Galloway and Scottish Borders Council at the moment, to shape that vehicle because it is on the table. It is a very practical way forward and that is very much our priority. As far as Borderlands work is concerned, it is a project by project approach. We need to be working with, for example, Carlisle around the airport in Carlisle. That is something that will benefit Dumfries and Galloway as well as Carlisle. It is about identifying projects and seeing what each local authority can bring to the table on those individual projects. I don't see it as being a new organisation, I have to say.

Q262 **Chair:** You can answer this, Councillor Mitchell. I saw your hand going up there. Is it important that we do have not just a cross-Scottish Borders co-operation between your two council areas but a co-operation with the north of England? Is that something that you see as important and how much of a priority is that cross-border working arrangement for you?

Councillor Mitchell: It is a priority among other priorities. It is important from the point of view that the south of Scotland association has been working for about 13 or 14 years. We got the NUTS 2 agreement, for example, which was quite important, even though with Brexit that may become valueless in another four or five years. It is a bit like the City Deals. A lot of City Deals were talked about for a long time before coming to fruition. We are still talking about the Edinburgh City Deal, for example; things like that. These things have their own impetus and I suppose it might be quite good to give you some semblance—

Q263 **Chair:** Is there resistance in the south of Scotland about working across border? I remember when I used to do broadcasting for my party, for instance, there was a great deal of discussion, debate and unhappiness about Border TV, for example, which did not sufficiently serve the area. Is there any sense that this is something that is not really required?

Councillor Mitchell: Or Sunderland Tees Valley, as some might call it or whatever. Yes, it is similar to the Hawick/Gala tradition. It is great to beat them at rugby or whatever and we hate each other in theory, but in practice we will work together and do certain things. I suspect it is similar to that.

I was down in Carlisle at the weekend—on holiday, I should say, not on business—and the place was buzzing. The shops were busy on the Saturday and Sunday. Hawick used to align itself with Carlisle. It could not do that once they took the railway away. There are these associations: Berwick and Berwickshire, Newcastle, Carlisle and the Borders. All these associations have been big in the past; they can be big again. It takes that drive and will, so ideally it will be for the next



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authorities because we demit office in early May, so it will be for the next councillors to take that on.

Q264 **Anna Soubry:** On that very positive note, do you all work together politically as well? I know that you do in Dumfries and Galloway. I don't want the details but it is a mix, isn't it? Do you all work together politically?

Councillor Smyth: We do. I think the South of Scotland Alliance is a prime example of that. It is chaired by me as a Labour councillor and the co-chair is Stuart Bell, who is an SNP councillor. You are right, in Dumfries and Galloway we have a minority Administration so we have to work across the board.

Q265 **Anna Soubry:** I take it there are a few Tories around, even if they have not been on the panel today.

Councillor Smyth: There are quite a few, I have to say, yes.

Q266 **Chair:** Just to round things up—because we have run out of time unfortunately, fascinating though this session has been—we are keen to continue to push the Borderlands report and engage the Secretary of State in at least considering some of the recommendations and things that we looked at on this. Would you find our continuing interest in this of value to the Borders area, and would you encourage us as much as possible to continue to do this?

Councillor Mitchell: The short answer is yes. Our officials are sitting behind me taking note. I am sure they will have heard us dwelling on this particular aspect. So, I think the short answer to your question is yes.

Councillor Smyth: Very much so. I think there were a lot of positives that came out of the Borderlands report that the Scottish Affairs Committee proposed, including, for example, a south of Scotland vehicle for enterprise. I would strongly urge you to continue that work. The very fact that the Scottish Affairs Committee takes an interest in the south of Scotland, by virtue of the fact you are here doing that work, is something incredibly welcome.

Chair: On that very positive note, we shall end this particular session. We are very grateful to all of you for coming along this afternoon. As usual, if there is anything that you feel we have missed, anything that needs to be reemphasised or could enhance our inquiry, please get in touch with the Committee. Thank you.