ECONOMY, ENERGY AND TOURISM COMMITTEE

AGENDA

30th Meeting, 2010 (Session 3)

Wednesday 10 November 2010

The Committee will meet at 9.30 am in Committee Room 5.

1. Decision on taking business in private: The Committee will decide whether to take item 5 at today's meeting, its discussion with its budget adviser and its draft submission to the Independent Commission on Banking at next week's meeting in private.

2. Protection of Workers (Scotland) Bill: The Committee will take evidence on the Bill at Stage 1 from—

   Hugh Henry MSP, Member in charge of the Bill, Scottish Parliament;

   Mike Dailly, Principal Solicitor, Govan Law Centre.

3. A fundamental review of the purpose of an enterprise agency and the success of the recent reforms: The Committee will take evidence from—

   John McLaren, Honorary Senior Research Fellow, Centre for Public Policy for Regions;

   Tony Mackay, Director, Mackay Consultants Ltd;

   Professor Mike Danson, Reader in Economics and Management, University of the West of Scotland.

4. A fundamental review of the purpose of an enterprise agency and the success of the recent reforms (in private): The Committee will consider the evidence heard during today's meeting and its approach to the inquiry.

5. Ofgem's consultation on the transmission network and grid charges: The Committee will consider a draft of its submission to Ofgem's consultation.
The papers for this meeting are as follows—

**Agenda Item 3**

PRIVATE PAPER EET/S3/10/30/1 (P)
SPICe briefing paper EET/S3/10/30/2

**Agenda Item 4**

PRIVATE PAPER EET/S3/10/30/3 (P)
PRIVATE PAPER EET/S3/10/30/4 (P)

**Agenda Item 5**

PRIVATE PAPER EET/S3/10/30/5 (P)
ECONOMY, ENERGY & TOURISM COMMITTEE

To assist the Committee with its enterprise network inquiry, SPiCe has produced the following two briefing papers at the request of members.

Spending on economic development in Ireland & Northern Ireland

Background

Chart 1 illustrates the economic development agency expenditure per head in Ireland and Northern Ireland, relative to that in the Highlands & Islands Enterprise (HIE) and Scottish Enterprise (SE) areas for the most recent year for which data is available. It shows that in Northern Ireland expenditure is £110 per head and in Ireland the Irish agencies IDA Ireland and Enterprise Ireland are together spending £122 per head. This compares to £59 per head in the SE area and £186 per head in the HIE area in 2010/11 (a combined figure of £70 per head in Scotland). This note provides more detailed information on what accounts for the additional expenditure per head by economic development agencies in Northern Ireland and Ireland, relative to Scotland.

Chart 1: Expenditure per head on economic development

Source: SPiCe calculation based on information from economic development agency business plans and annual reports.

Note –Scottish Enterprise figures do not include non-cash costs as they are not specified in their Business Plan 2010-13. Including non-cash costs would likely marginally increase the SE budget to around £65 per head and the Scotland total to around £75 per head.
A closer look at Northern Ireland

Invest Northern Ireland (Invest NI) provides support for starting up new businesses and growing existing businesses. It also looks to attract new investment to Northern Ireland. Table 1 shows the budget per head across different activities by Invest NI and SE. Budget information at this level of detail was not provided in HIE’s operating plan or annual accounts. Note that spend has been allocated by SPICe by broad category using business plans from each agency. It should be noted that there may be discrepancies as the activities undertaken within similar headings may differ across the agencies.

Table 1 – Budget per head by activity: Invest NI and SE

<table>
<thead>
<tr>
<th>Area of spend</th>
<th>2010-11 £ budget per head</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Invest NI</td>
</tr>
<tr>
<td>Enterprise support</td>
<td>26.4</td>
</tr>
<tr>
<td>Foreign Direct Investment (FDI) and internationalisation</td>
<td>12.4</td>
</tr>
<tr>
<td>Business starts</td>
<td>8.4</td>
</tr>
<tr>
<td>R&amp;D, innovation &amp; commercialisation</td>
<td>30.9</td>
</tr>
<tr>
<td>Sectoral support</td>
<td>0.0</td>
</tr>
<tr>
<td>Property development &amp; regeneration</td>
<td>15.2</td>
</tr>
<tr>
<td>Running costs including all staff</td>
<td>18.5</td>
</tr>
</tbody>
</table>

†Allocations do not include Regional Selective Assistance grants. In addition, in 2010-11 SE had a reduced capital infrastructure budget because of acceleration in 2008-09 and 2009-10.

From the table it is evident that although running costs and spend on property development & regeneration were broadly similar per head, Invest NI is spending more than SE per head in most other key areas of spend. In particular, Invest NI has a higher budget per head for R&D, innovation & commercialisation, enterprise support and FDI & internationalisation relative to SE. Within the area of R&D support Invest NI offers products such as grants for R&D, Venture Capital Funds and Innovation Vouchers. Invest NI states “The extent and scope of our programmes of support for R&D reflects the significance we place on this key driver of industrial competitiveness” (Invest NI 2010). Within the area of enterprise support, Invest NI offer products such as Business Health Checks, the Short Term Aid Scheme and Leadership and Management Support.

A closer look at Ireland

In Ireland there are two bodies which support economic development in the same way as SE and HIE. IDA Ireland is responsible for developing and supporting FDI while Enterprise Ireland is responsible for the development and growth of indigenous Irish firms.

IDA Ireland is a specific agency for developing and supporting FDI with a budget of £44 per head: this is an area of activity with a higher level of spend per head than in SE and HIE.

Additionally, in Enterprise Ireland there is a higher spend per head (£77 per head) than SE (£59 per head). As a business plan categorising spend by activity type is not published by Enterprise Ireland, outturn information from their 2009 annual report is used to compare spending across key areas by SE in 2010-11. Table 2 shows
how these estimates compare with the levels of spend in the equivalent areas in SE. Budget information at this level of detail was not available in HIE’s operating plan. Note again that spend has been allocated by SPICe by broad category using information from each agency’s publication. There may be discrepancies as the activities undertaken within similar headings may differ across the agencies.

Table 2 – Budget per head by activity: Enterprise Ireland and SE

<table>
<thead>
<tr>
<th>Area of spend</th>
<th>£ budget per head</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Enterprise Ireland</td>
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<tr>
<td>Enterprise support</td>
<td>30.2</td>
</tr>
<tr>
<td>FDI and internationalisation</td>
<td>0.3</td>
</tr>
<tr>
<td>Business starts</td>
<td>4.1</td>
</tr>
<tr>
<td>R&amp;D, innovation &amp; commercialisation</td>
<td>27.0</td>
</tr>
</tbody>
</table>

Sources: Enterprise Ireland Annual Report and Accounts 2009 and Scottish Enterprise Business Plan 2010/13

¹ Allocations do not include Regional Selective Assistance grants. In addition, in 2010-11 SE had a reduced capital infrastructure budget because of acceleration in 2008-09 and 2009-10.

Table 2 indicates that Enterprise Ireland is budgeting more than SE per head in two key areas of spend – enterprise support and R&D, innovation & commercialisation. Within the area of enterprise support, Enterprise Ireland offers products such as share capital investment, training and employment support. Within the area of R&D, innovation & commercialisation Enterprise Ireland offers products such as the Innovation Voucher scheme which enables companies to acquire cost-effective R&D solutions from third-level institutions, the Innovation Partnerships Programme which offers financial support for collaborative research projects between companies and third-level research institutions and the Business Partners Programme to increase the number of companies emerging from higher education research institutes.

Summary

- Economic development agency spending per head of population is higher in Northern Ireland and Ireland than it is in the Scottish Enterprise area in 2010-11.

- In both Northern Ireland and Ireland this is driven by higher levels of spend per head on R&D, innovation & commercialisation, enterprise support and FDI & internationalisation relative to SE.

Scherie Nicol

SPICe Research

Note: Committee briefing papers are provided by SPICe for the use of Scottish Parliament committees and clerking staff. They provide focused information or respond to specific questions or areas of interest to committees and are not intended to offer comprehensive coverage of a subject area.
Economic success in Sweden

Background

Sweden has a population of 9.3 million (compared to 5.2 million in Scotland), but as it is the third largest country in Western Europe it has a population density of just 23 per km² (compared to 66 per km² in Scotland). It has been a member of the EU since 1995.

Economic success

Although the UK and Sweden have had similar average productivity growth levels in recent years, in the 1990’s Sweden’s productivity grew by 2.8% per annum, almost twice the OECD average. Sweden increased productivity by focusing support on R&D, innovation and exports in domestic firms. There was strong growth in exports over this period and in addition, by the early 2000’s, R&D expenditure – at 4.25% of GDP – was the second highest in OECD. High levels of R&D spend and exports as a % of GDP relative to the UK can still be seen, as shown in Table 1.

Table 1 – Performance indicators in Sweden and the UK

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Sweden</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual productivity growth (10 yr average)</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>FDI as a % of GDP</td>
<td>64</td>
<td>52</td>
</tr>
<tr>
<td>Exports as a % of GDP</td>
<td>54</td>
<td>28</td>
</tr>
<tr>
<td>Total R&amp;D spend as a % of GDP</td>
<td>3.7</td>
<td>1.8</td>
</tr>
<tr>
<td>Corporation tax rate</td>
<td>28%</td>
<td>28%</td>
</tr>
<tr>
<td>Average wage per hr, manufacturing</td>
<td>£17.25</td>
<td>£13.49</td>
</tr>
<tr>
<td>Ease of doing business rank</td>
<td>17</td>
<td>6</td>
</tr>
<tr>
<td>Broadband penetration (%)</td>
<td>32</td>
<td>28</td>
</tr>
</tbody>
</table>

Source: IREP 2009

The Swedish model of success

Sweden’s financial crisis in the early 1990’s caused a recession and forced Sweden to abandon a lot of the excesses from the 1970’s and 1980’s.

The Government used the financial crisis to undertake economic reform. As part of this Sweden introduced a sweeping wave of deregulation in the early 1990’s to increase competition and productivity. Several markets such as the post office, transportation and telecoms were deregulated, which opened the way for the success of companies like Ericsson and contributed to substantial productivity growth.

In addition there was a renewed focus by the Swedish Government on supporting and building export markets to stimulate economic recovery for the country. Swedish exports doubled over the period 1978 to 2008. EU accession in 1995 facilitated this success through providing access to a larger market.
Another key driver of success in exporting has been high levels of investment in R&D – particularly in the telecommunications sector. In Sweden, a key feature of its R&D policy is the extent to which it involves cooperation between institutions. The Government has set up a dedicated organisation named VINNOVA to provide funding for R&D. It requires that research grants are matched by support funding from other organisations, including firms and/or universities. The ‘triple helix’ model - Public-Private-University partnerships - ensures that there is a strong focus on the practical application of research.

Summary of success factors

▪ The government used a financial crisis in the early 1990’s to build alignment behind a strategy for economic reform
▪ As part of this Sweden introduced a sweeping wave of deregulation which substantially increased competition and productivity
▪ The Government also set up a dedicated organisation named VINNOVA to provide funding for R&D
▪ By requiring that research grants be matched by other organisations, VINNOVA has contributed to Sweden’s high levels of R&D co-operation between firms, universities and research institutes

Source: [IREP](#) 2010

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