

An Leas-phrìomh Mhinistear agus Ath-shlànachadh
Cobhid
Deputy First Minister and Cabinet Secretary for Covid
Recovery
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Economy and Fair Work Committee
The Scottish Parliament
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28 March 2023

Dear Clare,

Thank you for your letter of 28 February following my appearance at the Committee's evidence session on 18 January. My responses to the specific points made by the Committee are set out below in an annex to this letter.

I hope you find this information helpful, and I would be happy to respond to any further questions the Committee has.

JOHN SWINNEY

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Targeted support for tourism & hospitality

We expect that around half of properties in the retail, hospitality and leisure sectors in Scotland will pay no rates in 2023-24 due to the most generous Small Business Bonus Scheme relief in the UK. This scheme is just one of a number of measures set out in the Scottish Budget 2023-24 on non-domestic rates which will benefit businesses, including those in the tourism and hospitality sectors. Other measures include the freeze in the poundage, which was the number one ask of businesses, ensuring that Scotland has the lowest poundage in the UK for the fifth year in a row, and that over 95% of non-domestic properties continue to be liable for a lower property tax rate than anywhere else in the UK. The poundage freeze comes at a forecast cost of £308 million, in contrast with only £169 million of Barnett consequentials received for the equivalent policy in England. In addition, the Revaluation Transitional Relief will cap gross rates bill increases up to the next revaluation. In total, the rates relief package announced in the Budget is estimated to be worth £744 million. The Scottish Government has no powers to amend or introduce non-domestic rates reliefs in-year via subordinate legislation.

Energy costs for businesses, particularly for the tourism & hospitality sectors and for rural areas

The Scottish Government is very much aware of the impact of rising energy costs on businesses across Scotland, including the tourism and hospitality sectors, which are yet to recover from the devastating impact of the COVID-19 pandemic. As energy retail policy remains reserved, the key policy levers to mitigate the impact of the energy cost crisis upon Scottish businesses sit with the UK Government. Although the Scottish Government continues to take all the action we can with the limited powers available to us, we have repeatedly written to UK Government Ministers calling for additional targeted action to help those businesses who are struggling the most with high energy costs.

Energy Bills Discount Scheme

At the end of last year, I, along with the Cabinet Secretary for Net Zero, Energy and Transport, wrote to BEIS (now the Department of Energy Security and Net Zero (DESNZ)) and the Treasury to call for any further support to be targeted at the businesses who need it the most. We were extremely disappointed that the UK Government chose not to engage with us prior to the introduction of the Energy Bills Discount Scheme (EBDS), which replaces the Energy Bills Relief Scheme (EBRS) from 1 April, and are very concerned that the EBDS has a significantly reduced funding envelope (from £18bn down to £5bn).

It is critical that businesses in Scotland receive the support they need to allow them to operate with confidence without the uncertainty aligned to high energy costs. Many of our key public service providers such as local authorities and the healthcare sector are also facing considerable pressure at the moment and should be considered for additional support. That is why I raised this matter again in a letter to the UK Government ahead of its Budget announcement as well as requesting a meeting with the Secretary of State to discuss our concerns in detail.

Energy and Trade Intensive Industries

We broadly support the principle that energy and trade intensive industries will receive a larger discount in comparison to other sectors under the EBDS. However, our discussions with stakeholders have highlighted many concerns on the part of businesses who are currently not

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included within the relevant definition. For those businesses in the tourism and hospitality sectors, it is imperative that due consideration is given to their inclusion in the list of energy and trade intensive industries to enable maximum support to be available to those businesses who need it most. That is why we are disappointed that our calls for reassurance from the UK Government that the definition scope would be widened as part of the Spring Budget process were not acted upon.

Rural businesses

We are very concerned about the higher costs that businesses in rural parts of Scotland have to contend with in comparison to those living in more central areas. Rural businesses face specific problems in relation to connection to and maintenance of their energy supply. Many rural businesses rely upon heating oil or other alternative fuels for their energy, and we are concerned at the insufficient level of support with their energy costs that they are receiving from the UK Government. That is why we called upon the UK Government to also revisit the level of support for alternative fuel users as part of its recent Budget process and are disappointed that no further clarity was provided.

We have additional concerns that access to smart meters is limited and problematic for rural consumers, particularly those based in the Highlands and Islands. Given that the Smart Meter Implementation Programme is reserved, positive action is needed from the UK Government to address these issues.

Scottish Government action

We are doing everything in our power to ensure that businesses receive the level of energy support they require to continue to operate with confidence. Following the energy summits hosted by the First Minister last year, my officials are working with representatives from the business sector to assess the impact of the UK Government's reduction in energy support for businesses and explore what collaborative action we, along with partners, can take to mitigate that impact within the limited devolved powers available to us. This includes considering how best to advocate the benefits smart meters can bring to households both in terms of managing bills and energy efficiency.

Targeted support to protect and grow businesses in rural areas

The Scottish Government is working to build an inclusive and robust rural economy that meets the goals of achieving a nature-positive and wellbeing economy for future generations. The rural economy employs 433,800 people, providing an economic contribution worth £37.91 billion to the Scottish economy. Nine out of 10 businesses in rural areas are micro enterprises employing between 0 and 9 employees. Their needs are often different to urban businesses and this is reflected in our activity to implement the National Strategy for Economic Transformation (NSET). Indeed, building on international best practice, and working with partners, we are developing a "rural lens" approach to the delivery of NSET, ensuring that rural interests are fully represented.

In order to develop a competitive, entrepreneurial, inclusive, and sustainable rural economy, we have provided £600,000 of funding to Growbiz since 2013 to provide tailored business support to new and existing rural businesses. In addition, Highlands and Islands Enterprise and South of Scotland Enterprise have been allocated over £97 million in 2023-24 to support their work with businesses and communities across the Highlands and Islands and South of Scotland. Their focus will be on improving business resilience, protecting and creating jobs, and helping businesses across their regions to grow.

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In addition to the measures set out above concerning business rates, which businesses in rural areas may benefit from, 100% mandatory rural relief from non-domestic rates is also available for prescribed property types up to a certain rateable value in rural settlements. Local authorities also have discretionary powers to grant up to 100% rural relief to properties which provide a service that is of benefit to the community where they consider it would be in the interest of Council Tax payers to do so.

Revisiting the issue of Scottish Government support for hospitality and tourism after the UK Government's Spring statement

We will look carefully at all options once it is clear what the funding consequential arrangements are, both positive and negative, following the UK Government Budget statement on 15 March.

Taxation

The Scottish Government has prioritised a progressive approach to taxation, raising revenue to support public services while making Scotland a great place to live, work, study, and do business in.

In relation to the Committee's request to carry out modelling on the impacts of differences in Scotland's tax system relative to the rest of the UK, it is important to remember that people base their decisions on where to live and work on a wide range of factors, not just taxation, and it is important to look across all of these. The decisions we have made on taxation have raised, and continue to raise, significant additional revenue for the Scottish Budget, which contributes toward investment in a wide range of free-to-access public services that go significantly beyond what is provided in other parts of the UK. This includes free prescriptions, free access to higher education, free bus travel for under-22s, alongside support delivered through the social security system such as the Scottish Child Payment.

We are acutely aware of the risks and benefits from diverging tax systems in Scotland and the rest of the UK and closely monitor the risks associated with the tax base in Scotland. In line with our Framework for Tax, and to further transparency and public debate, the Scottish Government¹ and HMRC² published studies on the Scottish Government's 2018-19 Income Tax reforms, which showed that there is no significant evidence to date of cross border migration as a result of our Income Tax policy choices. To inform the 2023-24 Scottish Budget, I convened an expert panel to provide me with independent economic advice on how the Scottish Government could respond to the economic and fiscal challenges it is facing through the tax system and the wider implications for public services and the economy.³ The panel concluded that: "International empirical studies suggest that tax-induced cross-border migration is small in magnitude."

We will continue to work with stakeholders and subject matter experts to assess and improve the existing evidence base.

¹ [Scottish Income Tax: 2018-19 policy evaluation - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/scottish-income-tax-2018-19-policy-evaluation/pages/introduction.aspx)

² [Estimating Scottish taxpayer behaviour in response to Scottish Income Tax changes introduced in 2018 to 2019 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/644222/estimating-scottish-taxpayer-behaviour-in-response-to-scottish-income-tax-changes-introduced-in-2018-to-2019.pdf)

³ [Supporting documents - Implications of the UK Government fiscal statements for the Scottish Government Budget: expert panel interim commentary - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/scottish-budget-2023-24-expert-panel-interim-commentary/pages/introduction.aspx)

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Skills and labour market

Women in entrepreneurship and labour market barriers

Ana Stewart and Mark Logan's independent report, *Pathways: A new approach for women in entrepreneurship*,⁴ was published on 20 February 2023. We are considering the report's recommendations and will issue our response as quickly as possible.

On 9 December 2022 we published our refreshed Fair Work Action Plan, which includes actions and steps being taken forward by the Scottish Government and various public bodies, to continue to reduce the gender pay gap and help address the issues women face in the workplace and business.

The Scottish Government recognises that flexible working practices can benefit all workers, particularly women, to whom the balance of caring responsibilities often falls. Since October 2021 we have asked employers to offer flexible working from day one of employment, a measure that the UK Government has recently agreed to introduce into legislation. We are currently funding flexible working experts, Flexibility Works, to support and promote the development of flexible and family friendly workplaces with employers across Scotland. Furthermore, our Women Returners Programme recognises the continued barriers that women face, particularly those who have taken career breaks due to caring or health commitments. The Programme has helped over 1,900 women since 2021 with their transition back into the workplace, offering training, skills and peer support at a time and pace that best suits their needs.

Our Workplace Equality Fund is a further intervention aiming to remove barriers for specific groups who experience disadvantage in the labour market, including addressing barriers women face in the workplace. The Fund has three schemes aimed directly at aiding women in the workplace, including Cornerstone's Menopause Awareness project, which aims to raise awareness on the menopause; reduce associated challenges and barriers; increase support; and improve the recruitment and retention of women between the ages of 45 and 55. As part of the Women's Health Plan, published in August 2021, we are developing a menopause and menstrual health workplace policy, and promoting it across the public, private and third sectors, further helping support women back into work and into business.

The Scottish Government's No One Left Behind approach to employment support helps parents make successful transitions towards employment, into employment, sustaining employment and progressing in employment. Although employability services are available for all parents on low-income, there is a specific focus on the priority family groups: lone parents; families with a disabled parent or child; families with three or more children; minority ethnic families; families where the youngest child is under 1 year old; and parents aged under 25. Participants are supported by a keyworker, who supports with employability interventions but also links holistically to wider services that parents need, including housing, childcare, health, justice and advice. This approach is crucial in ensuring that parents are supported to access the integrated packages of support that are needed to increase the probability of someone achieving and sustaining good quality employment. The support also includes flexibility to provide discretionary payments to help with costs associated with childcare where costs cannot be met from elsewhere.

⁴ [Pathways: A new approach for women in entrepreneurship - gov.scot \(www.gov.scot\)](https://www.gov.scot/resources/publications/2023/02/20230202-pathways-a-new-approach-for-women-in-entrepreneurship/)

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In 2023-24, we will invest around £1 billion in the delivery of 1,140 hours of high quality funded early learning and childcare to all 3 and 4 year olds in Scotland, and those 2 year olds who need it most. We are already progressing our plans to expand the childcare offer in Scotland by extending free early learning and childcare to one- and two-year-olds, starting in this Parliament, with children who will benefit most. In addition, we have already started to design and deliver funded school age childcare services. This year we will invest £15 million to continue to support the design of an all-year-round system of school-age childcare, within targeted communities across Scotland, offering care before and after school and during the school holidays.

We published our National Carers Strategy on 21 December last year, and this included specific sections acknowledging gender demographics and defining actions to overcome gender inequality and improve support for female unpaid carers. We are also funding the Carer Positive Awards scheme to help workers with caring responsibilities to remain in employment.

Economic inactivity

Scotland's inactivity level has improved in recent months and dropped over the quarter to 21.0% in the 3-month period November 2022 to January 2023, which is lower than the UK rate of 21.3%. However, we recognise that Scotland's longer term challenges around economic inactivity remain. Long-term sickness continues to be the most common reason for economic inactivity for those aged 16 to 64, at 31.9% of the economically inactive, a share which has increased in the years since the COVID-19 pandemic. NSET contains a commitment to address Scotland's labour market inactivity challenges. Regular analysis to understand, in detail, the causes and drivers of economic inactivity continues, with work underway to look closely at how our health system and employability support services can better support people to stay healthy in work and move in to good work from inactivity.

Disability Employment Gap

Latest full-year figures from the Annual Population Survey indicate the Disability Employment Gap decreased from 33.4 percentage points (p.p.) in 2020 to 31.2 p.p. in 2021. We are making steady progress towards our target to at least halve the gap by 2038 from the baseline year (2016), with the gap reducing by 6.2 percentage points between 2016 and 2021. The reduction over this period was due to a larger rise in the employment rate of disabled people relative to the employment rate of non-disabled people.

Skills in the Renewables sector

The climate emergency entails enormous societal change and we must adapt the education and skills system to make it more responsive to our economic needs and ambitions. Scotland has many of the skills required to facilitate the transition to a low carbon economy, across sectors such as energy, engineering, construction, and chemical science; but with the growing complexity within many roles, and rapidly changing technology environment, there is a need for a collaborative and integrated approach to skills alignment and provision.

The Climate Emergency Skills Action Plan (CESAP) is central to creating a future workforce that can support our transition to a net zero economy and ensure workers are equipped with the skills that employers will need for the future as we transition to a greener economy. We are in the process of developing an update to CESAP to ensure it remains in line with our economic and climate ambitions as set out in NSET.

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Hydrogen

Scotland's existing oil and gas and energy supply chains can transfer many of the critical engineering and management skills important to establishing the stable and secure production of affordable large-scale hydrogen. We have commissioned a study through ClimateXChange to gain a strategic understanding of the hydrogen skills landscape within Scotland, with a focus on the current and forecasted demand for hydrogen jobs and skills. This assessment will support an understanding of the skills requirements for the whole hydrogen value chain to aid the transition to a hydrogen economy in Scotland in line with our Hydrogen Action Plan.

Talent Attraction and Retention

Through NSET we have committed to implement a focused Talent Attraction programme to attract key skills and talent from the rest of the UK. This will align with Scotland's identified priority growth sectors and will provide a joined-up "landing zone" for targeted employees and their families supported through our commitment to create a Migration Service for Scotland. Brought together, the Talent Attraction programme and Migration Service for Scotland will improve Scotland's ability to attract and recruit workers from outside Scotland with the skills that our economy will need in the future, and support international workers in the migration and relocation process.

An Industry Advisory Group, chaired by the Minister for Business, Trade, Tourism and Enterprise, has been formed to share talent attraction expertise and to identify and develop effective approaches to attracting talent from the rest of the UK. Membership of the group reflects the priority growth sectors identified in NSET. This will help address skills gaps across these sectors and bring overall benefits to Scotland's regions and wider economy, including life sciences, technology/fintech, advanced manufacturing (mechanical and electronics), financial services, space, and renewables.

We are also developing a Student Retention programme to support students to stay, live, and work in Scotland after qualifying. The programme aims to increase the number of international and Scottish graduates staying in Scotland, particularly in rural and island communities, and formalise links between students and employers (both public and private sector), particularly for sectors with skills shortages.

Apprenticeships

In relation to the Committee's concerns regarding apprenticeship-levy supported university courses, it must be noted that English and Scottish apprenticeships are different in terms of content. English apprenticeships have very specific rules around duration, mandatory off the job training and end point assessment across all apprenticeships, and funding bands offer funding largely in excess of comparable apprenticeship framework contribution rates in Scotland and the other devolved nations. This creates unfair comparisons from employers operating cross border. In Scotland, apprenticeships are based on defined industry need. Scotland has a unique skills system that remains focused on ensuring, where possible, that apprenticeships are available which are of high quality and lead to sustainable employment opportunities.

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Flexible Workforce Development Fund

An independent evaluation of the Flexible Workforce Development Fund (FWDF) was carried out in 2022, with findings published on 25 January 2023.⁵ The purpose of the evaluation was to assess the impact of the programme, including the expanded delivery to SMEs and non-college provision. The evaluation found that FWDF is considered by stakeholders to be a much needed and valued intervention, with a clear, strong and continuing rationale for the Fund. Employers reported high levels of satisfaction with the Fund.

We are already taking action following the evaluation to respond to the recommendations. This includes ensuring that all training strands of the Fund be opened to all employers, and this was implemented for the current academic year. Work has begun to consider the remaining recommendations in collaboration with our delivery partners, the Scottish Funding Council and Skills Development Scotland. Any further changes to the programme will also be informed by lifetime skills policy commitments outlined within NSET.

Vocational development

Through the Young Person's Guarantee we have invested up to £30 million over three years in the college sector, via the Scottish Funding Council, enabling colleges to deliver a wide range of skills boost and Higher National Qualifications for young people. In addition, we allocated £3.5 million in 2021-22 for a Graduate Talent Internship Programme to support new and recent graduates, with up to a further £3 million committed to the programme in 2022-23. SMEs can continue to access up to £5,000 to upskill their staff through the Flexible Workforce Development Fund (FWDF). Employers can access FWDF via their local college, the Open University or independent training providers depending on their individual requirements.

The 2023-24 Scottish Budget allocates nearly £2 billion to Scotland's universities and colleges, which continues the trend of a year-on-year increase of this budget in cash terms. Within a difficult fiscal context the net college resource budget has increased by 3.8% (£26 million) in cash terms compared with 2022-23, and there is a £20 million cash increase for Higher Education resource funding. The Scottish Funding Council is currently working to provide indicative allocations for institutions in the Spring.

Colleges plan their course provision in line with the economic needs of their regions and, through working closely with employers, are able to respond flexibly to the skills demands of the regions and communities they serve. The development of the Purpose and Principles⁶ is the start of a period of wider reform to ensure that our post-school education, research and skills system is fit for the future. We published the scope and approach in Summer 2022, the Interim Purpose and Principles in December 2022, and we intend to publish the final Purpose and Principles this Spring. We are currently engaging with a range of stakeholders including colleges, universities, learners and businesses to inform the development of the Purpose and Principles.

⁵ [Flexible Workforce Development Fund \(FWDF\): evaluation - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/evaluation-fund-2022/pages/1-100.aspx)

⁶ [Interim purpose and principles - Post-school education, research and skills: interim purpose and principles - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/interim-purpose-and-principles-2022/pages/1-100.aspx)

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Visa applications

Scotland has its own distinct immigration requirements, which are different from the rest of the UK, as all future population growth is projected to come from inward migration. UK Government immigration policy fails to address Scotland's distinct demographic and economic needs and highlights the need for a tailored approach to migration in order to best support Scotland's communities, economy and public services to flourish. For example, the Skilled Worker visa is too costly and bureaucratic and excludes many key workers. A complete overhaul of immigration fees and processes is required and, at a minimum, the UK Government should review the costs of the immigration health surcharge and the immigration skills charge.

Scotland must be able to attract and retain talented people to study here without excessive barriers, and migration policy should support mobility, collaboration and innovation. International students bring diversity to our communities, enrich the learning experience and support local businesses and jobs. I am concerned by the Home Secretary's comments earlier this year seeking to reduce the numbers of international students who can apply for a graduate post-study work visa and cut the length of time a graduate can spend in the UK upon completion of their studies from two years to six months. The Scottish Government has long argued for the return of a post-study visa and we welcomed the UK Government's re-launch of the Graduate route in 2021. The route is instrumental in attracting the best international talent, securing essential income streams, and allowing graduates to continue contributing in Scotland after their studies. The proposed changes to the Graduate route pose a significant risk to Scottish universities and would damage our efforts to foster good global connections by promoting educational and research exchange.

In 2019, the Migration Advisory Committee (MAC) recommended that the UK Government should pilot a scheme to attract and retain migrants in remote areas, a position reinforced in its 2022 Annual Report. In response to the MAC's original call, the Scottish Government has developed a Rural Visa Pilot proposal, which represents a practical, deliverable migration solution that meets the needs of communities affected by rural depopulation and would support sectoral workforce needs at a local level. The MAC stated in its 2022 Annual Report that the proposal is "sensible and clear in both scale and deliverability".

We will continue to press the UK Government to ensure that visa applications are processed promptly within service level agreement parameters so that students' learning experiences and post-graduation ambitions are not adversely impacted. In a January letter to the Prime Minister on NHS and social care workforce challenges the First Minister also highlighted the need for visa processing services to improve their capability in line with a growing increase in international recruitment post-Brexit.

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