



The Scottish Parliament
Pàrlamaid na h-Alba

Economy and Fair Work Committee

John Swinney MSP
Deputy First Minister and
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Recovery

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Sent by email only

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Dear John

Following the UK Government's autumn statement and to inform the Committee's consideration of the Scottish Budget Bill, the Economy and Fair Work Committee held three evidence sessions to discuss Scotland's macroeconomic context and key trends and forecasts.

At the first session on [14 December 2022](#) the Committee heard from economic research institutes. The focus of the second session on [21 December 2022](#) was perspective of Scottish business organisations and the third, on [11 January 2023](#), was Scotland's renewables sector.

The sessions were data driven and informative. Following your appearance at the Committee on 18 January, the Committee agreed I should write to highlight again, as you are already aware, some concerns of Scottish businesses – concerns shared by this Committee.

You will recall in our pre-budget letter, the Committee recognised the exceptional pressures facing the tourism and hospitality sectors and called on the Scottish Government to bring forward targeted business support for them. In response, you pointed to provisions to freeze the poundage and the transitional reliefs that will benefit all sectors, the Small Business Bonus scheme and monies provided for Business Energy Scotland. These are all welcome, but the Committee remains disappointed that the Scottish Government budget response falls short of the targeted support we called for.

At the time of the Committee's initial session, there was widespread business uncertainty about business energy relief beyond April; accommodation and food sectors being particularly vulnerable. A significant proportion of businesses had reported they would have to close, downsize or restructure. As rural Scotland has a greater reliance on tourism there would have been a disproportionate impact.

On [9 January 2023 the UK Government announced changes to the support scheme for business, charity and public sector energy costs](#) for one year from 1 April 2023; a two-tier support scheme. For all businesses there will be a unit discount of up to £6.97/MWh automatically applied to gas bills and a unit discount of up to £19.61/MWh applied to electricity bills. This support will only be for businesses facing energy costs above a threshold: £302/MWh for electricity and £107/MWh for gas. The UK Government has set a cap of £5.5 billion on support delivered through this scheme – compared to an [estimated cost of £18 billion for energy bill support provided to businesses since 1 October 2022](#).

Energy and trade intensive industries will receive a higher level of discount and have a slightly lower level of threshold to qualify for the scheme. This will provide a maximum discount of £40.0/MWh for gas and £89.1/MWh for electricity but will only apply to 70% of businesses energy costs by volume.

Clearly this announcement from the UK Government is welcome however the Committee remains concerned, in particular about Scotland's tourism and hospitality sector and the economic fragility of Scotland's rural areas.

The Scottish Government is asked what consideration it has given to targeted support to protect and grow businesses in rural areas. Recognising the importance in Scotland of our tourism and hospitality sectors, the Committee asks that the issue of Scottish Government support provided for hospitality and tourism is revisited soon after the UK Government's Spring statement.

In other sectors, we know that many of Scotland's businesses compete on an international stage where business rates are significantly lower. This can place Scottish businesses at a competitive disadvantage. It was suggested to, and supported by, the Committee that further modelling of Scotland's divergence from the rUK on taxation would be useful to analyse the impact on, the attractiveness of, Scotland as a place to live, work, and do business. Accordingly, the Committee requests that this modelling is undertaken.

We are all in agreement that the foundations for Scotland's economic recovery will be addressing our skills and workforce shortages, ensuring stability for businesses and creating the conditions that encourage investment. Levels of economic inactivity in Scotland make it harder for employers to fill vacancies. This is a particular challenge in the tight labour market. As you know, the Committee is currently doing some preliminary work looking at Scotland's disability employment gap. However, the disability employment gap is only part of the picture. One key constraint across all sectors is the availability, inflexibility and cost of childcare and other care commitments preventing some women returning or increasing their activity in the workforce.

There has been a recognition for some time that more needs to be done to support women back into work and in business. The Committee has repeatedly expressed disappointment at the lack of progress to establish a women's business centre however it welcomes publication this week of the report of Ana Stewart's review of women in entrepreneurship in Scotland.

Given the Committee's keen interest and the level of detail in the report, the report will be considered at a future Committee meeting.

For Scotland's renewables sector there is greater certainty about policy direction and therefore significant potential for foreign direct investment opportunities for the Scottish economy. The Scottish Government is encouraged to continue to focus on this. However, the key constraint for this sector is the availability of skills.

The Committee has heard repeatedly that the biggest challenge for the sector is attracting and developing talent. Long-term investment in skills development is needed. We heard an example of a firm unable to take on the required number of apprentices due to a lack of college spaces and trade placements, and another unable to upskill project managers in renewables due to a lack of apprentice levy-supported university courses in Scotland. The Committee was told there did not seem to be the same shortage of places in England but to access those places students must live in England. The Committee is concerned to hear about this apparent disparity.

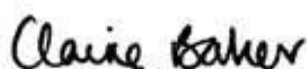
The Committee is aware that apprenticeship levy funds are used by the Scottish Government for the Flexible Workforce Development Fund (FWDF) and that some businesses in Scotland are not happy about the way Fund operates. There was a commitment in the 2021/22 Programme to review the operation of the Fund. The Committee would be grateful for an update on this work and what consideration is being given to the concerns about its operation.

In addition to college and university places, we need continued focus on vocational development, specifically support for SMEs where capacity for training provision is more limited. The Scottish Government is asked what action it is taking to increase the funded places in Scottish colleges and universities, more generally to streamline the process for employers and accreditation bodies and what consideration is being given to a targeted programme of work with SMEs to support upskilling.

Finally, it is vital that those coming to study in Scotland from abroad are able to choose to remain here once they graduate. Witnesses called for action to address the current backlog of visa applications. The Committee appreciates this is not within the Scottish Government's gift to action directly, but it seeks assurance that the Scottish Government continues to press the UK Government on this and confirmation of when this issue was last raised.

I look forward to hearing from you.

Kind regards



Claire Baker MSP
Convener