



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Economy, Energy and Fair Work Committee

**Tuesday 8 January 2019**

**Session 5**



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**ECONOMY, ENERGY AND FAIR WORK COMMITTEE**

**1<sup>st</sup> Meeting 2019, Session 5**

**CONVENER**

\*Gordon Lindhurst (Lothian) (Con)

**DEPUTY CONVENER**

\*John Mason (Glasgow Shettleston) (SNP)

**COMMITTEE MEMBERS**

\*Jackie Baillie (Dumbarton) (Lab)  
\*Colin Beattie (Midlothian North and Musselburgh) (SNP)  
\*Angela Constance (Almond Valley) (SNP)  
\*Jamie Halcro Johnston (Highlands and Islands) (Con)  
\*Dean Lockhart (Mid Scotland and Fife) (Con)  
\*Gordon MacDonald (Edinburgh Pentlands) (SNP)  
\*Andy Wightman (Lothian) (Green)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Stephen Boyle (Enterprise and Skills Strategic Board)  
Jamie Hepburn (Minister for Business, Fair Work and Skills)  
Derek Mackay (Cabinet Secretary for Finance, Economy and Fair Work)  
Nora Senior (Enterprise and Skills Strategic Board)

**CLERK TO THE COMMITTEE**

Alison Walker

**LOCATION**

The David Livingstone Room (CR6)



## Scottish Parliament

### Economy, Energy and Fair Work Committee

Tuesday 8 January 2019

*[The Convener opened the meeting at 09:45]*

### Decision on Taking Business in Private

**The Convener (Gordon Lindhurst):** Good morning and welcome to the first meeting in 2019 of the Economy, Energy and Fair Work Committee. Agenda item 1 is a decision on whether to take items 5, 6, 7 and 8 in private. Does the committee agree to do so?

**Members** *indicated agreement.*

## Budget Scrutiny 2019-20

09:45

**The Convener:** Agenda item 2 is scrutiny of the 2019-20 budget. I welcome the two ministers who are with us this morning: Derek Mackay, the Cabinet Secretary for Finance, Economy and Fair Work, and Jamie Hepburn, the Minister for Business, Fair Work and Skills. They are joined by Oonagh Gill, deputy director for enterprise and cities, and Gavin Gray, deputy director for employability, from the Scottish Government.

I invite Derek Mackay and then Jamie Hepburn to make brief opening statements before we move to questions from committee members.

**The Cabinet Secretary for Finance, Economy and Fair Work (Derek Mackay):** Good morning, convener. The budget is in the context of continuing United Kingdom austerity, which has reduced our resource block grant by £2 billion in real terms over the past decade. It is also against the backdrop of a UK Government that is careering towards any Brexit, regardless of the cost. Therefore, the budget aims to provide as much certainty as possible for business and the economy by providing stability and stimulus and by making strategic long-term investments to strengthen and prepare the economy for the future.

In terms of economic indicators, the latest gross domestic product statistics, which were published on 19 December, show that the Scottish economy continues to have stable growth for the fifth consecutive quarter. I welcome the statistics that show that business, enterprise, research and development expenditure in Scotland was £1.2 billion in 2017, which was the highest level since 2001 and was up by 13.9 per cent from 2016.

We published an economic action plan in October that set out the range of positive actions that the Government is taking to deliver inclusive growth. The employment rate in Scotland remains among the highest on record, and the unemployment rate is at a record low.

The Scottish budget will invest £5 billion to grow and modernise Scotland's infrastructure. That will include creating a £50 million town centre fund to safeguard and support the future of our high streets; investing £8.3 million to further progress the new national manufacturing institute for Scotland; targeting up to £18 million in European funding to establish an advance manufacturing fund; providing initial funding of £130 million to support the establishment of the Scottish national investment bank; committing more than £187 million of capital investment in city region and growth deals; and investing £20 million over the

next three years to enhance and intensify support to businesses that are wishing to export, including £5 million in 2019-20.

In terms of a competitive tax regime, the budget maintains the most generous small business bonus scheme in the UK, which lifts about 100,000 properties out of rates altogether and extends the transitional relief for the hospitality sector and for offices in Aberdeen and Aberdeenshire. The increase in the poundage for the property tax in Scotland is capped below inflation, giving a poundage of 49p. That ensures that more than 90 per cent of properties in Scotland pay a lower poundage than they would if they were in other parts of the UK.

The budget offers the most generous package of reliefs anywhere in the UK, which is worth more than £750 million. It continues to invest about £2.4 billion in our enterprise and skills bodies to provide the vital support that is required to realise Scotland's economic vision.

In 2019-20, Skills Development Scotland will receive an additional £22 million, taking its total budget to £214.7 million. That will further expand the work-based learning opportunities that are available through foundation, modern and graduate apprenticeships. We will publish the future skills action plan in early 2019 to ensure that we have the right skills in place to support individuals, employers and our economy.

**The Convener:** Thank you. Mr Hepburn, do you have anything to add?

**The Minister for Business, Fair Work and Skills (Jamie Hepburn):** I do not propose to add anything to the cabinet secretary's opening remarks.

**The Convener:** We will start with a question from me, then. The Scottish Government appears to agree with Scottish Enterprise's claims that Scottish Enterprise contributes positively to the Scottish economy. Against that background, why does the Government continue to reduce Scottish Enterprise's grant allocation? If the Government accepts that Scottish Enterprise is successful, should money not follow success?

**Derek Mackay:** There are a few issues there. First, Scottish Enterprise, unlike some other parts of Government or other agencies, can generate some of its own income. There is of course a recognition of how important the economy is, and Scottish Enterprise is key in that. The Government has to make choices, given the backdrop of an overall real-terms reduction over a 10-year period, but we believe that Scottish Enterprise can deliver the outputs that we have asked it to deliver while delivering efficiencies. It believes that it can do that without impacting on performance, through

head count, assets and property and the ability to generate income.

We should be mindful of the range of actions that we are taking to support the economy, although Scottish Enterprise and Highlands and Islands Enterprise are key players in that regard. If we include the city deals and growth deals and so on and the funding for the manufacturing institute, we see that the totality of investment to support the economy is impressive. Scottish Enterprise believes that it can execute its function while making those efficiencies through the areas that I mentioned.

**The Convener:** Not everyone would necessarily agree with the point about Scottish Enterprise's performance, and some might think that you are cutting the budget because you share that view, in spite of what you have said about the position.

**Derek Mackay:** No. I am clearly setting out that I expect Scottish Enterprise to carry out the functions that we have asked it to and that Scottish Enterprise believes that it can do that while making efficiencies, given that it is able to generate and realise income. The situation is not a reflection on the organisation; the reality is that the Government has to make budget choices, and that is one of the choices that we have made. We believe that we can get the same outcomes. I have discussed the issue with the chief executive of Scottish Enterprise, Steve Dunlop, and he believes that he can deliver on those asks while delivering the efficiencies.

**The Convener:** I have a question for Mr Hepburn, and I think that other members will ask about the same issue. He will be aware of the situation with Kaiam in Livingston and of similar situations involving companies that have received funding support through Scottish Enterprise. Does there need to be more general consideration of how such funds are used, what companies they are used to support and whether they could be used more efficiently to support greater sustainability of workers' jobs?

**Jamie Hepburn:** Clearly, the situation at Kaiam is very disappointing, and I understand that the circumstances there will beget such questions. Our expectation is that, where Scottish Enterprise seeks to provide any form of regional selective assistance, it should go through a process of due diligence. That will have been done with Kaiam, just as happens with any company or organisation that Scottish Enterprise determines should be provided with funding. The process includes consideration of a number of factors, such as finances, market conditions and the company's business plan, and that will have happened in the circumstances at Kaiam.

Of course, where such funding is provided, it does not guarantee that a company will be successful in the long run. Clearly, when Scottish Enterprise makes funding available, it does so on the basis that due diligence has been undertaken and it hopes that the funding will lead to on-going success. With any form of investment, we are never guaranteed that it will result in a company being able to sustain itself for the long term but, where there is investment, there is an expectation that there will be a return. Sadly, that has not been the case at Kaiam, and my primary concern now is to support the workforce there. We are doing that through our agencies, through Scottish Enterprise and through Skills Development Scotland working with partnership action for continuing employment—or PACE—of which it is a member. My primary focus is on ensuring that the workforce can be supported.

As I have said, that has been happening already. There has been a quick response in the form of the supporting events that have been arranged in West Lothian, and there will be another jobs fair later this month to support the workforce. After that, Scottish Enterprise will look at how it can recoup any investment that it has made in the company.

**The Convener:** You will be aware of the calls for a general review of the background and approach to assigning such assistance—you mention that in your letter. Do you agree that there should be such a review?

**Jamie Hepburn:** We have made a number of commitments in, for example, our fair work first policy to ensuring that fair work is embedded in any public investment that we make in any organisation or private enterprise. That work is under way, and we are looking actively at our wider expectations for the return that we get on public investment. I am also aware that the committee has undertaken a review of business support, and we will, of course, respond to its report in due course.

**The Convener:** I am sure that other committee members will come back to the specifics of the Kaiam situation, but at this point I will bring in Andy Wightman.

**Andy Wightman (Lothian) (Green):** Cabinet secretary, you mentioned that you had met Steve Dunlop to talk about running-cost efficiencies. Can you give us more of an idea of what exactly those efficiencies are?

**Derek Mackay:** No, it would be more for Scottish Enterprise to give you the detail on that. As I have said, I sought reassurance about its ability to deliver its functions while making those efficiencies and with the income that it is able to generate. If you require more information from

Scottish Enterprise, I encourage you to get that through Steve Dunlop, who I am sure will be forthcoming about how he envisages running his operational budget based on the budget that I am proposing to Parliament. It is in the territory that I have described to the committee, but I am sure that Steve Dunlop will be happy to go through it in detail.

One point of reassurance that I am sure the committee will appreciate relates to the Government's approach of having no compulsory redundancies, and anything to do with head count will not compromise that policy. I also note that the organisation has an estates strategy. Given my responsibility for asset management in the Government, I know that there is a range of areas such as workplace planning and asset management that can be explored for further efficiencies. I am sure that Steve Dunlop will be happy to engage with the committee, but I was satisfied with the assurance that I was given with regard to the 3 per cent budget reduction and the maintenance of the totality of investments to support the economy which, as far as enterprise and skills are concerned, comes to £2.4 billion. This is an efficiency within the organisation.

**Andy Wightman:** Are you seeking a 3 per cent saving through efficiencies right across the public sector?

**Derek Mackay:** It is a benchmark figure. There is an annual expectation that efficiencies will be made, whether in productivity, in procurement or just in general. Indeed, we have an agreement with local government for efficiencies to be made annually and reported to the Scottish Government, and that happens every year. However, I am not saying that that is consistent for every part of Government or every department or that there is an equivalent level in the budget allocation. That allocation is determined by a range of factors, but that is the consistent figure for Scottish Enterprise and Highlands and Islands Enterprise.

**Andy Wightman:** You said that local government reports those efficiencies to Government on an annual basis. Do any other public sector bodies outside this portfolio do the same or account for how they have achieved efficiencies to ensure that lessons can be learned?

**Derek Mackay:** Sure. It depends on the nature of the public body or agency and their accounts or accountability arrangements with ministers, but organisations will report on how they have conducted themselves.

**Andy Wightman:** I realise that, but I am talking about crystallising the actual efficiency savings. When the level 4 figures in the budget say that this saving will be achieved through running-cost efficiencies, it would be useful to know on an on-

going basis, year to year, not just in Scottish Enterprise but across the public sector, the nature of those efficiencies, how they have been achieved, and any lessons that can be applied in future. Would that not be generally useful?

10:00

**Derek Mackay:** It would. The leaders and chief executives of Scotland's public bodies and Government departments meet through the Scottish leaders forum and there is sharing of good practice on efficiencies. Some of it might be straightforward, but I am not so sure that there should be an additional requirement to produce a report or a document. There is sharing of good practice, of what good savings look like and what works in procurement and other areas. I can certainly give the matter further thought, but a lot of sharing of information about efficiencies can be found in the public sector.

**Andy Wightman:** On another small point, you mentioned £750 million of reliefs on non-domestic rates. What evidence is there that the small business bonus scheme provides any economic benefits?

**Derek Mackay:** This is a regular discussion that Mr Wightman and I have at various fora, and I am delighted to bring it to the Economy, Energy and Fair Work Committee as well. As Mr Wightman knows, the Government has conducted an exercise and organisations such as the Federation of Small Businesses have produced survey evidence of what they believe the small business bonus has done to support the economy for small to medium-sized businesses. I am happy to supply that survey output to the committee. Mr Wightman will also know that the Government has committed to reviewing the small business bonus. The details of that can also be shared.

**Jackie Baillie (Dumbarton) (Lab):** Everyone will agree that we are facing a tough economic context, particularly with the uncertainty of Brexit. It was therefore no surprise that the Scottish growth scheme, which was announced in the programme for government in 2017, was widely welcomed. Imagine, therefore, our disappointment at only £0.5 million of the £10 million having been spent. Do you consider that Scottish Enterprise has taken its eye off the ball?

**Derek Mackay:** To be fair, I note that there is a range of issues within that question. That fund is part of the £500 million Scottish growth scheme, of which more than £100 million has been invested. However, I accept that an element of the European scheme has not landed as we wanted it to. We can all accept that that is disappointing, but there are several ingredients to consider—there being a willing investor and a proposition, and the

Government element of the scheme that then comes into play. Staffing of that element will be improved by dedicated staff. I hope that that makes a difference and that we can invest the money as was envisaged.

This is not specifically related to that matter, but I have been advised by companies that some investment is drying up because of the current Brexit uncertainty. Some investment plans are not being realised or are being put on hold because of the calamitous position that we are in, which is that we do not know what will happen on 29 March because of the ineptitude of the UK Government. That uncertainty is right now having an impact on interest in investing throughout the UK.

That said, my answer to the question is that dedicated staff are supporting the Scottish European growth co-investment programme fund, but the ingredients of its success include there being an investment proposition and ready investors before Government and European funding can come into play. I hope that that is achieved. This is one part of the overall £500 million scheme.

On the wider question, I want to make sure that the £500 million is invested over the period. I know that I committed to providing the committee with an update by April. I shall do that. It will set out where we are with all the schemes, and what we are proposing for the year ahead.

**Jackie Baillie:** I hear what the cabinet secretary says, but it does not explain what has happened in the past 12 months. Some people wanted to invest in preparation for Brexit.

I accept that in the next three months the situation will be very difficult and challenging, but I cannot help but wonder whether it is a missed opportunity. There are additional staff, but you have described how there will be issues in relation to investors. How will you otherwise use the money? Will you divert it elsewhere in order to ensure that it is used?

**Derek Mackay:** If, for whatever reason, financial transactions funds cannot be used for the purpose for which they have been dedicated, they can be used across Government. I have ensured that that is done—we either, by way of a budget revision or otherwise, carry money forward or reinvest it elsewhere, with the support and approval of Parliament. For example, the financial transactions that we have used to provide support to farmers can, if they are realised, be reinvested in the economy. I give a reassurance that financial transactions are not lost to us, and that ability to spend them is maximised either through budget exchange or through another good cause. Financial transactions across Government—the help-to-buy scheme, support for farmers, and



investment companies—can be fluid. I welcome the fact that they can be used in that fashion and then carried over. If I could not spend a particular quantum and had to hand it back to the Treasury, that would be an unacceptable situation, so I would engage with the Treasury. I assure Jackie Baillie that the financial transactions are spent.

In relation to the £10 million Scottish European growth co-investment fund, part of the issue is the scale of equity investment. There are other investments around, and there is a hierarchy of financial support that can be provided to companies, irrespective of Brexit uncertainty. Companies can choose which support they wish. Some prefer grants—which is maybe no surprise. What would an investor choose? They could take the money, with conditions, or they could take the equity or a loan. Companies have sought guarantees for different reasons. There is a menu of financial support for companies in Scotland, some of which is delivered by Scottish Enterprise. There is separate Brexit support as well, including the Brexit readiness programme, which supports companies in preparing for Brexit, whatever it transpires to be. However, extra effort is going into the Scottish European growth co-investment fund.

On the timescale, I understand and appreciate the disappointment, which I share, that more schemes have not come through successfully. That is partly down to the time that it takes for an investment proposition to go through the necessary process. We hope that more will come through the pipeline. Investors have made contact, but I understand that Brexit uncertainty is casting doubt on their investment propositions. We all know that investment has been put on hold because of Brexit, but the Scottish European growth co-investment scheme's dedicated fund managers—I think that that term is correct, but I can come back with the detail—will try to be proactive in ensuring that the funding is used. I hope that my comprehensive answer gives reassurance that the resource is not lost to us. We are trying to take advantage of the existing resource.

**Dean Lockhart (Mid Scotland and Fife) (Con):** The draft budget allocates £130 million of initial funding to the Scottish national investment bank. How much of that money is coming from financial transactions funding that is derived from the UK Government?

**Derek Mackay:** £120 million is coming from the financial transactions and I have allocated a £10 million base operating cost.

**Dean Lockhart:** The vast majority of funding for the Scottish national investment bank and £70 million of the Scottish Enterprise budget is derived from financial transactions funding. When the UK Government announced the funding, the cabinet

secretary described it as a “con” and said that it is not real money. Do you still think that financial transactions funding is a con?

**Derek Mackay:** I think that Dean Lockhart is mixing up what I said. Just as I said about the resources that businesses would choose, any Government would choose the financial flexibility of resource funding. Why would it not? I have described how—Dean Lockhart helps me to make my point—the Scottish Government and Parliament are being asked to choose reductions in front-line services because our resource block grant is going down in real terms, which has an impact on services in Scotland. In relation to capital investment, I have said that in the case of traditional capital departmental expenditure limits, it can be invested directly in housing, for example. That is capital investment. Financial transactions funds are welcome for such purposes.

I welcome investment of such funding in the national investment bank, and I welcome its use to support co-investment in companies or for equity funding. What I do not welcome is a reduction in the front-line budgets, a reduction in the capital departmental expenditure limits grant and a reduction in the financial flexibility that we have to invest in a very tightly defined area. Any finance secretary would want as much flexibility as possible, so that we can invest money in the fashion that we would like.

I welcome financial transactions as far as they go, but, given the wider context, surely the committee understands that I would also welcome an increase in resource spending, so that we can invest more in the national health service, education, local government and so forth.

What I described as a “con” is some Conservative members' having described the £2 billion as totally unconditional funding for the Scottish Government when, in fact, a large amount of it is financial transactions—

**Dean Lockhart:** But cash is fungible—

**Derek Mackay:** Dean Lockhart might not like it, but that is the explanation: the £2 billion has strings attached.

**Dean Lockhart:** No. The reality is that cash is fungible. The increased financial transactions funding means that you can use, in other areas, cash that would otherwise be going to the enterprise agencies. That is just a simple case of financial management.

Thank you for clarifying that FT funding is not a cost.

**Derek Mackay:** I certainly cannot fund the national health service, education or local government through financial transactions funding. My point was that it is a con to describe it as

unconditional money, so I am glad to have been given the opportunity to clarify that.

**Dean Lockhart:** Good. I am glad that it is real money.

I will move on to a more general question about the budget. The amount of income tax that is under the control of the Scottish Government that will be collected is forecast to decline by half a billion pounds over the next financial year. That is almost 10 times the amount that the Government will raise as a result of not increasing tax thresholds. What are the reasons for that half a billion pounds decline?

**Derek Mackay:** Income tax is forecast to increase. Shall we go to the tax chapter?

**Dean Lockhart:** I am talking about income tax.

**Derek Mackay:** Yes—so am I.

**Dean Lockhart:** What page are you on?

**Derek Mackay:** You are questioning me, so you tell me what you wish to probe.

**Dean Lockhart:** I am looking at table 1.02 on page 8. The line on Scottish income tax shows a decrease from £12.1 billion in 2018-19 to £11.6 billion in 2019-20.

**Derek Mackay:** What do you wish to challenge?

**Dean Lockhart:** I refer to the figures in the last two columns, which show Scottish income tax going down from £12.1 billion to £11.6 billion.

**Derek Mackay:** The member will know that we are moving from forecast figures to outturn figures. The closer we get to each fiscal event, the closer we get to outturn. There is an 18-months to two-year delay for income tax figures being reconciled.

As I said, we are moving from forecast to actual outturn. The policy decisions that we have made will increase the Scottish income tax take.

**Dean Lockhart:** That is not what the table says.

**Derek Mackay:** We are moving from a period of forecast to actual outturn. The more data we have, the more accurate the picture.

**Dean Lockhart:** Right—but is the table accurate in showing a £500 million decline in income tax receipts?

**Derek Mackay:** Mr Lockhart, you are a member of the Finance and Constitution Committee, are you not?

**Dean Lockhart:** I used to be.

**Derek Mackay:** You will therefore be very familiar with the issue of moving from forecast to outturn figures. It recalibrates the numbers. As each year passes, we have an updated number.

Of course, we would all like to get as close to the outturn figure as possible. That figure will give us the actual number rather than what has been forecast.

I can give a more expansive answer, of course, because we have published the medium-term financial report, which gives us the latest numbers. As I said, when we have the outturn figures, that will tell you exactly how much has been raised. We rely—we have in the past, we do so now and we will in the future—on forecasts that are provided by the Scottish Fiscal Commission. The Fiscal Commission, in its very detailed report, has been going through its estimates of Scottish income tax. It will move from its baseline, which was an estimate, to the actual outturn. That has no detrimental consequences for the Scottish Government's budget and the resources that we have. We previously faced that methodology issue. The commission has revised its Scottish income tax figures. The explanation for the difference in the figures is that we are moving from forecast to more accurate outturn figures.

**Dean Lockhart:** Okay—but we will still see a decline in the cash that comes in through income tax.

I will move on. The estimated number of top-rate taxpayers has reduced from 18,000 to about 12,000. The 18,000 figure is from your tax document last year. What steps is the Scottish Government taking to increase the number of top-rate taxpayers, who provide a significant percentage of income tax receipts? Do you think that increasing the tax gap between those taxpayers and the rest of the UK will help to increase income tax revenue from those taxpayers?

10:15

**Derek Mackay:** First, I have not seen any evidence that a divergence in tax policy is deterring people from coming to live, work and invest in Scotland. There are two sides to the coin—tax and spend. On spend, we are stimulating the economy. We are providing the stability that is required and—importantly—sustainability in our public services, and we are maintaining the social contract. That provides benefits that do not exist south of the border—free education, no prescription charges, the extension of free personal care and the kind of society and country that we are trying to build, for example.

This is about raising the necessary revenues to invest in our public services. Our doing so presents Scotland as a more attractive country. There has been no evidence that tax divergence thus far has impacted negatively on Scotland's economy. Indeed, it can be argued that the two

quarters in the current financial year in which Scotland outperformed the gross domestic product growth of the rest of the United Kingdom show that the economy is strong and that there is no deterrence. That said, as I said in my budget speech, we must be mindful of divergence, so I have asked the Council of Economic Advisers to continue to advise us on the issues.

The question that Mr Lockhart asked was specifically on the top rate of tax. We have taken an evidence-based approach. It is interesting that I do not see any Labour members on the committee—

No. I do see a Labour member in Jackie Baillie. *[Laughter.]*

**Jackie Baillie:** The cabinet secretary should apologise.

**Derek Mackay:** I do apologise. The Labour Party should apologise for its treatment of Jackie Baillie, but that is a separate matter. *[Laughter.]*

I was going to make the point that, if we had pushed the top rate of tax to the point at which it deterred people from living in Scotland, less resource would be raised. We would not be willing to do that, if the advice that we were given was that such a rate would have a detrimental effect.

Maintaining the top rate at the current level raises extra revenue and meets the tests that we have set for income tax. Our discussion paper on income tax sets out the four tests: to have a more progressive system, to support lower-income earners, to protect the economy, which is key, and to raise revenues for our public services. The top rate meets those tests.

How we attract more top-rate taxpayers to Scotland is about the kind of country that we want to build. We want a country that is investing in infrastructure, education, society and business, and which is a fairer and more progressive society. We have a successful economy that will continue to attract people. I continue to believe that my proposed tax rates will not be a deterrent to investment or to taxpayers living in Scotland.

**Dean Lockhart:** My final question is to ask whether you have a specific target for increasing the number of top-rate taxpayers in Scotland?

**Derek Mackay:** I do not have a specific target for top-rate taxpayers.

**Dean Lockhart:** If you do not have a target, how can you manage that?

**Derek Mackay:** I would like to hear the rationale for attracting only top-rate taxpayers to Scotland. I value the carer, the nurse and others: I do not judge people just by their tax band—

**Dean Lockhart:** Neither do I, cabinet secretary. I am talking about your tax policy—

**Derek Mackay:** I value people by their contribution to society and perhaps even the size of their heart, which is something that Deal Lockhart would be interested in.

I have set no targets to attract particular bands of taxpayer. Do I want to attract people to come to live in Scotland? Of course I do. Does the UK Government wish to do that? No, it wishes to send people away and to create a hostile environment for migrants working in Scotland and the rest of the UK. There being here is something that would make a difference to our economy.

**The Convener:** We have no one from the UK Government here to respond to or rebut that comment.

We will move on from finance, tax and apologies to questions from Angela Constance, which might be for Mr Hepburn to address.

**Angela Constance (Almond Valley) (SNP):** Before I ask Mr Hepburn some detailed questions about Kaiam and RSA, I want to ask the cabinet secretary about a financial transactions funding issue. He outlined the range of activities that financial transactions funding could be used for. Would he be interested in what the Welsh Government has done to enable credit unions to access financial transactions funding, and would he explore that actively if I wrote to him with the detail?

**Derek Mackay:** I would be happy to look at that issue. Mr Hepburn has some responsibilities regarding credit unions.

**Angela Constance:** That is good, thank you.

I have spent much of the past two weeks in regular contact with ministers regarding the devastating news that more than 300 workers at Kaiam in Livingston received, just before Christmas, about being made redundant, without due notice or pay. I accept that we know more about this company now than we did in 2014, when £850,000 of taxpayers' money was invested, but will Mr Hepburn or the cabinet secretary say more about due diligence, given that the company was persistently late in laying its accounts—it took me two minutes to find that out on the Companies House website—and had not seen an annual profit since 2012?

**Jamie Hepburn:** Right now, my clear priority—like that of Ms Constance—is to support the workforce. I refer back to the point that I made in my earlier answer: the clear expectation is that Scottish Enterprise will undertake full due diligence for any award that it makes. That should have happened with Kaiam. Scottish Enterprise will be able to give a fuller answer on the specifics

of the process that was undertaken. The investment was made in 2014 on the basis of seeking to secure 103 jobs at the site, and the funding conditions involved those jobs and the assets that were secured remaining in place until 2021. Clearly and sadly, that has not been achieved, and on that basis, Scottish Enterprise will seek to recoup its investment.

**Angela Constance:** I would be interested to know whether the due diligence that was undertaken in 2014 by Scottish Enterprise will be made publicly available, particularly given that we know, as Mr Hepburn has outlined, that the purpose of that £850,000 was to create 103 new jobs and safeguard 65 existing jobs. Yet, by Christmas 2014, the company had paid off 20 permanent and 40 temporary members of staff. Despite being given £850,000 of public money with a view to expanding the business, the company did the absolute opposite before the year was even out.

**Jamie Hepburn:** You will need to raise the specifics of what was undertaken at the time with Scottish Enterprise. I undertake to do that and to see what information we can provide to the committee. The committee may want to engage with Scottish Enterprise directly. My clear expectation is that when any form of public funding is provided by one of our agencies, full due diligence should be undertaken. Scottish Enterprise has direct responsibility for that, so it will be able to provide the additional information.

**Angela Constance:** When public money is given for a specific purpose and it transpires that the reverse happens, what do Scottish Enterprise and ministers do to follow that up?

**Jamie Hepburn:** Clearly, there will be an on-going relationship between any company that has been invested in and the agency that made the investment, which in this case was Scottish Enterprise. When the outcome is not as expected, the issue of clawback arises. As I mentioned earlier, Scottish Enterprise would seek to reclaim any investment if its purposes have not been achieved. Ordinarily, that would be through the company, but in this circumstance that will not be possible, so it will be done through the administrator.

**Angela Constance:** We are now looking at the issue of clawback—via the administrator—because of events leading up to Christmas 2018. Was there any suggestion of clawback at the point of Christmas 2014? I put it to you again: in 2014, a substantial amount of public money was given to the company for the purpose of expansion and the creation and safeguarding of jobs, but, by the Christmas of the same year, it had paid staff off. Why was Scottish Enterprise—under the guidance of ministers—not looking at clawback in 2014?

**Jamie Hepburn:** The committee would have to take that matter up directly with Scottish Enterprise. I am happy for us to take it up with Scottish Enterprise and ask it to update the committee accordingly.

**Angela Constance:** I will take that up with Scottish Enterprise. However, I suspect that my dialogue with ministers on the matter has not ceased.

**Jamie Hepburn:** I would be surprised if it had, Ms Constance.

**Angela Constance:** You know me well.

My final question is: how can conditions on RSA and grant funding be used to reduce the risk to the public purse and be used in a way that aids early intervention to support companies, so that we are on top of situations at the first indications of things going wrong?

**Jamie Hepburn:** That is something that we can look at. I go back to the point that I made earlier: there should be that on-going relationship between the body that has made the award and the recipient of that award. I have been clear that I cannot answer in relation to what happened in 2014, but we will look at that.

On the additionality that we can leverage out of our public investment, the fair work first principles that we have set out are under way. They set a wider expectation that any organisation that is a beneficiary of public funding will commit to adhering to the fair work principles. Maintaining dialogue with the workforce about what is happening should be part of those principles.

**Angela Constance:** There is evidence, looking at the history of Kaiam, that fair work principles have not been applied, given that the company was given public money in 2014 to create jobs and expand its business, but did the exact opposite of that.

**Jamie Hepburn:** We must seek to learn from this experience. Clearly, the manner in which the company moved into administration and the timing of that was unfortunate, to say the least. I do not underestimate the impact on the individuals who were employed there. I have referred to the fact that Scottish Enterprise will seek to claw back any public investment, but I do not expect that to be its immediate priority. Its immediate priority should be to work with other agencies to support the workforce and to work with the administrator to see whether a new buyer can be sought for the site, so that we can continue to see economic activity in West Lothian.

**The Convener:** The Labour member of the committee would like to ask a follow-up question.

**Jackie Baillie:** I have a couple of questions. In November 2017, £100,000 of RSA was given to the company. What was that for, and will that be part of the clawback that Scottish Enterprise will eventually look at?

**Jamie Hepburn:** If it is related to the present circumstances, the expectation would be that there should be some form of clawback, but I would need to look at the specifics.

**Jackie Baillie:** You do not know what it was for.

**Jamie Hepburn:** To be candid, I do not have the specifics.

**Jackie Baillie:** It would be helpful if you could write to the committee with those details.

**Jamie Hepburn:** I will certainly write to the committee.

**Jackie Baillie:** I understand that, because Kaiam is an account managed company, Scottish Enterprise was told on 16 November. The Scottish Government was told on 22 November. When did the minister or the cabinet secretary know and what did they do about it?

**Jamie Hepburn:** I found out when ministers were informed on 22 November.

One of the difficulties that we have had, which has not been widely understood or covered—understandably, the coverage has focused on the impact on the workforce—is that although our first contact with the company indicated that it was in financial difficulty, there was no indication that it was moving into administration. At that point, it talked about seeking a buyer. That then changed, and the company was looking to secure new sources of finance, before changing back to seeking a buyer, and back again to looking for additional sources of finance. Indeed, I was informed just two days before the company announced that it was going into administration that it was looking to secure new sources of finance in order to keep going. It was a fluid and rapidly changing set of circumstances.

Throughout the entire process, Scottish Enterprise and Scottish Government officials were engaged with the company and offered it any assistance that we could to help it to find a new buyer, if that was what was being sought. As we got closer to the eventual outcome, we started to gear up to offer the workforce the support of PACE. The process of engagement was there throughout the entire period.

10:30

**Jackie Baillie:** You have expressed regret that staff were not paid and that they were told on Christmas eve that they were being laid off. Given the fluid situation, did you seek specific

assurances from the company that it would protect staff and their right to a decent wage?

**Jamie Hepburn:** Everything that we did in our engagement with the company was to try to secure the rights and position of the staff. We were advised that limited funds were available to meet the payroll on 21 December, but there was no suggestion that the payroll would not be met. We were told a few days later that salaries would not be paid on 21 December, as had been planned, but that they would be paid on 27 December. The next day we were told that they would not be paid at all. That indicates the kind of situation that we were in. It is important to place on record that, ultimately, the staff were paid.

**Jackie Baillie:** Absolutely, although what happened should have sent up red flags about what was going on in the company. When did you know for certain that the staff would not be paid?

**Jamie Hepburn:** I think that we were told that the day before the company went into administration. That is the kind of timescale that we were working to.

**Jackie Baillie:** You will forgive me for doing this, but I cannot help but contrast seeing both of you sitting here with the time that the cabinet secretary got on a plane to Paris to try to resolve the situation at Michelin Dundee. I feel as if the Scottish Government has been sleepwalking, and trusting Kaiam, which has resulted in workers going without pay on Christmas eve.

**Jamie Hepburn:** The two situations are rather different.

**Jackie Baillie:** I suspect that it does not feel that way to the workforce at Kaiam.

**Jamie Hepburn:** Of course it does not feel any different to the workforce; I would not suggest otherwise. I make it clear that the commitment right now is to support the people who have been directly affected.

The cabinet secretary can say more about this, but in Michelin we had a company that had willingly sought to engage. It had indicated, very early and up front, the position in respect of the future of the site, and it had said that it was willing to stay involved in the city of Dundee.

It was not the same with Kaiam, although there was on-going engagement with the company. We now know that Kaiam's chief executive did not remain in Scotland to tell the workforce directly what the outcome was. However, he was in Scotland at various stages and was engaging directly.

**Jackie Baillie:** Have you had any direct discussions with the chief executive?

**Jamie Hepburn:** I have not. He is no longer the chief executive of the company, so I am now seeking to engage with KPMG, which is the administrator.

**Jackie Baillie:** I am disappointed that you did not engage directly with him while he was chief executive, and when all of these problems were being experienced. I would have expected that from the minister and from the Scottish Government.

**Jamie Hepburn:** There was direct engagement between the Government and the company—

**Jackie Baillie:** Who was involved? Was it you as minister? Was it the cabinet secretary?

**Jamie Hepburn:** No—I have said that very clearly. It was Scottish Government officials.

I suppose that the point that I am making is that the situation changed very drastically over the period. It was only at the end of the period that it was clear how drastic it was. That is not to suggest that the company had not indicated that there were problems with its financial situation. We sought to engage with the company and to try to do what we could to assist, but it was only at the very end, when the company moved into administration and said that the staff would not be paid, that the ultimate situation was clear.

**Jackie Baillie:** You suggested to me earlier that you found out literally a day before the company went into administration—I forget the precise timing of it. You were briefed that it was going into administration on 14 December—is that not correct? Do you want to correct your earlier response so that you do not mislead the committee?

**Jamie Hepburn:** Sorry, but I am not misleading the committee. That is the point. Kaiam suggested that it might move into administration but it then changed its position—as far as we were aware—to pursue investment options to try to keep the company going. However, in the end, it went into administration—

**Jackie Baillie:** On 14 December, you knew that going into administration was a live possibility, but nothing was done.

**Jamie Hepburn:** No—at no stage have I suggested that nothing was done. We continued with that engagement.

**Jackie Baillie:** You were reassured when Kaiam said that it was going to find other investors—that was enough.

**Jamie Hepburn:** No, I am not suggesting that at all. Companies engage with us regularly. Sadly, more often than not, the unfortunate reality is that people only hear about that engagement when it is not successful. Companies often seek to engage

with us on a confidential basis because if they are looking for a buyer, for example, and we say that the company is in specific financial trouble, it may make it more difficult to find a buyer. Every process of engagement is designed to try to secure a successful outcome. Sometimes that is achieved; sometimes, regrettably, it is not.

**Jackie Baillie:** I think that people would expect those at the highest level—ministers and cabinet secretaries—to roll up their sleeves and get on with things. I cannot help but contrast the approach to the Kaiam situation with the more proactive approach taken by the cabinet secretary.

**John Mason (Glasgow Shettleston) (SNP):** Ms Baillie has strayed somewhat into the area that I was going to ask about. I would like an update on the Michelin plant in Dundee.

**Derek Mackay:** I am happy to provide that update. It is important to say, though—as Mr Hepburn has said—that a number of issues can lead to companies getting into difficulty and to Scottish Enterprise getting involved. Scottish Enterprise will not always be involved, but, where we have an account manager, there is an expectation that we will be informed of events and the timelines that have been set out for companies.

I will give you a snapshot. Companies can get into difficulty and there is sometimes an opportunity for ministers to get involved. In Michelin's case, there was clear opportunity for ministerial involvement. In that instance, through our involvement we were able to effect change because of what we were able to present and because the company is quite an ethical company in its general approach, its purpose, its mission and its desire to do its best by Dundee and its staff, which gave us the opportunity to engage with it. Ultimately, that involvement has led to the signing of a memorandum of understanding with Michelin through what we are describing as the Michelin-Scotland alliance, whereby the company, the council, the Scottish Government and our agencies have come together to make the best of the situation.

As the committee will know, we set out to save the plant as it was and we did not give up on that mission, but it was clear that a repurposing of the plant was the more likely outcome of our discussions. Having met the company and other stakeholders, including the council leader and the chief executive, we were able to arrive at a proposition relating to the circular economy and the low-carbon economy that involved retraining and reskilling, which would be based in Dundee.

Because of our engagement and the showcasing of what we want to do as a country, the company was willing to engage with us. Even

though it has confirmed its plans to withdraw tyre manufacturing—of course, there will be a reduced head count as that happens—there will be full redundancy payments, which has been welcomed by the trade unions.

As well as retaining staff, we want to recruit and attract as many people as possible to the new ventures, and Michelin has appointed a senior executive to take forward that work. We also have the memorandum of understanding, and we will have discussions with the company about how that work will be resourced. We are bringing our key partners together to make sure that that happens.

All of that was welcomed by the local community, the trade unions and the local authority as the best possible outcome in the circumstances, other than retaining the plant. In essence, Michelin is here to stay in terms of on-going investment and partnership. We must bear in mind that Michelin is an international company and that, as Scottish Enterprise has said, if it was not already in Scotland, we would be trying to attract it here. We did not want Michelin to go, so we put together a package to encourage it to stay.

That work will be led by the chief executive of Scottish Enterprise. The number of jobs involved was over 800, and the scale of the industrial manufacturing meant that 8 per cent of manufacturing in Dundee was done at the Michelin plant. The plant has had a strong record as an environmentally friendly plant in that it was heading for carbon neutrality because of the renewables on site. There is a lot of potential at the site, and a lot of good work remains to be done to retain as many jobs as possible and, more important, to invest in jobs and manufacturing there for the future. The plant will, therefore, be repurposed as we have set out.

I have listened carefully to the committee's questions about grant assistance, and I can tell the committee that, if the Scottish Parliament had demanded on day 1 of the Michelin announcement that the Scottish Government go for clawback, we would have lost Michelin completely. The company is staying only because we have engaged with it. I am not suggesting that members said that we should go for clawback, but immediately asking for that when there was something far more positive to be secured from the predicament that we found ourselves in would have been a bad idea. The positive partnership working and engagement with the company and its willingness to listen to us and the proposition that we put to it have led to a far more positive outcome than would otherwise have been the case.

Nevertheless, if conditions in the most recent grant around conditionality and head count are not

fulfilled, we can claw back any resource that has been drawn down. From memory, I believe that Michelin received a £4.5 million grant for environmental purposes and that £1.5 million was drawn down. If the conditions are not met, we will claw that money back. However, we will have separate discussions on what we have set out with regard to Michelin in Dundee.

I am sure that Mr Mason will find that answer helpful.

**John Mason:** It was a full answer.

**Derek Mackay:** You did ask.

**John Mason:** I did, and I got a good answer, which I appreciate and thank you for. However, there seems to be a contrast between the two situations that we have just mentioned. I note that you used the word "ethical" about Michelin. I am not involved in either case, but it seems to me, as an outsider, that Michelin has been quite proactive and willing to engage, which we can call ethical behaviour or whatever. Does Scottish Enterprise take such factors into account when assessing different companies? I know that Scottish Enterprise could not be 100 per cent sure about this, but does it ask whether it can trust a company or whether it has reservations about it?

**Derek Mackay:** I do not want to make specific comparisons, but, on the general issues, there is a difference if we trust the individual whom we are engaging with. We go through due diligence with every company. Some companies are up for support and help, and some are far more resistant to an open-book approach. Some companies will share their accounts and tell us up front and honestly about the predicament that they are in and their investment plans, but some companies are more guarded. We have to base investment decisions on the information that we have before us, but there must also be an element of trust.

How much the Government and our agencies can do to support a company depends on there being a willingness and honesty on the part of the company to get the best possible outcome, which is what we had with Michelin.

**John Mason:** I presume that all of that overlaps with the fair work agenda whereby we want companies to treat their workers well, ensure that women employees get an opportunity and so on. I presume that a company that treats its employees well will also be open with the Government. If a company is not open with the Government, perhaps that should raise questions about whether it is treating its employees well and so on.

10:45

**Derek Mackay:** It does. I do not want to pick on any individual company when I say the following,

but some companies are not well managed. Some companies are not forthcoming with everything that they should tell the Scottish Government, Scottish Enterprise or HIE about—they might not talk about the nature of the problem that they face because they might not want the extent of the difficulties to be shared. That is why, sometimes, there are discussions in confidence. We could do more harm to a company and its employees if we did not treat commercial confidentiality seriously. Failing to do that could put some companies at a serious disadvantage. There are issues of trust, honesty, transparency and accountability—everything that you would expect in due diligence. At a company level, there are also issues about quality of management, the respect that is shown to the workforce and how open the company is with the Government.

The relationship is dynamic. Our agencies can only do their best when they engage with companies. They can only ask for the right information and expect due diligence to be performed. Ultimately, of course, if we are not satisfied, we do not have to give people public money, but we always bear in mind the interests of the employees—those people whose livelihoods are dependent on the success of the company. That was important in the Michelin case. If my number 1 mission had been financial clawback, there would have been a far less positive outcome.

**John Mason:** I am certainly not suggesting—

**Derek Mackay:** I know that you are not. However, for the avoidance of doubt, I am making the point that, when the Government's mission is to support a company for the right reasons, that is what we do. Nevertheless, we expect conditions to be fulfilled and we expect companies to interact with us in an up-front, honest and transparent manner.

**John Mason:** In the past, we have had reservations about the extent to which Scottish Enterprise, and, to some extent, Highlands and Islands Enterprise, have taken on the Government's fair work agenda and various other issues such as bringing in disabled people, women, people from ethnic minorities and so on. I hope that the message that you are sending today, which is that those issues are absolutely central, will filter through to Scottish Enterprise. I am sure that we will raise that issue with it in due course.

**Derek Mackay:** I would not expect the committee simply to hope that that happens. We are making the fair work agenda a matter of conditionality for regional selective assistance, and we have committed to working through all funding streams to ensure that it is mainstreamed. Clearly, we will have to work on the big grants first, but, if

there is any resistance to it, we will make it absolutely clear that Government agencies are expected to deliver the Government's policies. The First Minister has made it clear that that there is conditionality around fair work. Fair work comes first—that is the policy agenda that we are embarking on.

It will take time to make sure that every funding stream is touched on by the policy, but we are working our way through that. That is the commitment. If you hear about any resistance from Scottish Enterprise or any other enterprise agency, you should bear in mind that that is what we are working towards. I cannot make it any clearer than that. I am not asking members to hope; we will hold the agencies to account in that regard.

**Gordon MacDonald (Edinburgh Pentlands) (SNP):** I have a general question about enterprise agency targets. Scottish Enterprise successfully delivered all of its business plan measures for 2017-18, and Highlands and Islands Enterprise met or exceeded all of its targets for the same year. At the end of the 2015 to 2018 business plan period, Scottish Enterprise met all but one of the full three-year targets. Who sets the targets for the enterprise agencies? What input does the Scottish Government have into the setting of those targets? Are you satisfied that the targets are challenging enough to maximise the opportunities for the Scottish economy?

**Derek Mackay:** Of course, the situation is changing. Currently, the targets are set through the annual plan that ministers see and ultimately approve. However, the issue is that there is no consistency among the enterprise agencies. There is an element of developing targets and then satisfactorily meeting them. Is Scotland, as a nation, meeting its economic targets? No. We publish the Scotland performs documents and we set out our own targets. Of course, in terms of targets, there have been impacts on the wider issues in the economy due to Brexit uncertainty and so on.

It is helpful that the enterprise and skills strategic board is considering setting consistent targets for the enterprise agencies—I think that you are taking evidence on that as part of your work on the strategic board. That will give the board a level of independence. In a sense, the board will be independent of Government, because it is the strategic board, led by Nora Senior, that will take that work forward.

**Gordon MacDonald:** You mentioned the national performance targets. I was going to mention that they have not been met. How is it that the enterprise agencies' targets can be met yet the Scottish Government's national



performance targets are not met? Are they not sufficiently aligned?

**Derek Mackay:** It would be an interesting—if unfair—challenge to hold enterprise agencies accountable for the entire Scottish economy. The enterprise agencies have been asked to grow companies, to help exports and to deliver start-ups and scale-ups. If they achieve all of that, that will count as success.

I touched on the wider issues relating to the Scottish economy. Although there are many positive elements, I am well aware of the long-term targets that we have set for Scotland. It is surely to be welcomed that we have had five consecutive quarters of GDP growth and that, for some of those quarters, we were outperforming the United Kingdom. Unemployment is at a record low, at 3.7 per cent. Foreign direct investment is behind only London and the south-east of England. Export rates are high, and we have made progress on productivity under devolution. Surely all of that is to be welcomed, notwithstanding the fact that we want to meet the national targets that have not been met.

The forecasts for economic growth—if we want to define that as GDP—are subdued. However, the Scottish Fiscal Commission has said that they are subdued largely because of Brexit and the population challenge that Scotland faces. If we recognise the population challenge that Scotland faces as an issue, we cannot say that that is a matter just for Scottish Enterprise, Highlands and Islands Enterprise and the south of Scotland enterprise agency to fix in isolation. That might be why there is the disconnect between the two sets of targets. However, we want to ensure that the enterprise agencies' targets are challenging, and the role of the strategic board in that regard will be very helpful.

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** I want to look at the fair start Scotland programme and will touch on one or two of the points that Andy Wightman raised. Why is the fair start Scotland budget falling by £3.3 million between 2018-19 and 2019-20?

**Derek Mackay:** I am happy to refer questions on fair start employability to the relevant minister, which is Mr Hepburn, but I am sure that the answer is along the lines that schemes are coming to an end. I will cover budget questions, but I think that it is more appropriate for the minister to answer that question, because he knows his brief.

**Jamie Hepburn:** It is because schemes are coming to an end. [*Laughter.*]

Last year, we funded the innovation and integration fund from that budget line. We spent £1.7 million to road test the pilot, and there was a variety of approaches on how we could better

align employability provision. There was also funding for our transition one-year programmes, because there was still follow-on from the previous year—people had started and were going through the process of being supported even though they had been referred in the previous financial year. Such programmes have now come to an end—that, in a nutshell, is the reason why that budget is falling.

Of course, that budget line does not affect the front-line service at all. The funding that we have provided through the £96 million contracts remains in place. The contracts are signed, and my expectation is that what we have put in place through the contracts will be delivered. We will report on that. The first report, which covered the first two quarters, was published in November and showed that nearly 5,000 people have started in the service.

**Colin Beattie:** Given that there will be a reduction for the reason that you have stated, are there likely to be more reductions in years to come because of other programmes coming to an end?

**Jamie Hepburn:** There will probably not be reductions through that budget line.

**Derek Mackay:** Never say never.

**Jamie Hepburn:** There will be an increase in expenditure in other lines of employability provision in order that we can take forward a number of projects. However, the budget line that has been mentioned is for the contracts that are in place and will fund our contractual obligations.

**Colin Beattie:** Does the level 4 explanation of the running costs of efficiencies link to the drop in funding, or is the drop entirely due to programmes coming to an end?

**Jamie Hepburn:** There are associated savings that would be described as efficiencies. There were up-front costs such as those for development, which we do not need to pay as much for now that the programme is up and running.

**Colin Beattie:** Why are those savings not being used to fund the individual placement support pilot, as was specifically recommended in the committee's report of 31 October 2018 and, of course, on page 3 of the Scottish Government's response?

**Jamie Hepburn:** We are already funding individual placement support—it is an integral part of fair start Scotland. If, in assessing any participant, the providers determine that such support is appropriate, they are contractually obliged to provide it. I am loth to double fund something that is already available through our mainstream employability programme.

**Colin Beattie:** Okay. The programme for government set out information on the fair work action plan, the living wage nation and programmes for women returners. Given their importance to the Government's inclusive growth agenda, why is the combined budget for those policies, at £7 million in 2019-20, so small?

**Jamie Hepburn:** You might argue that the budget is small, but I might offer the riposte that there is a 55 per cent increase in the fair work budget line and that there has actually been an uplift in funding.

I might also observe that the funding that we have provided for living wage accreditation, which is being maintained, has had significant success. We now have more than 1,300 accredited living wage employers, and, over the past three years, 25,000 people have benefited from an increase in their income as a result of living wage accreditation. We are offering the same form of funding and are seeking similar outcomes through that initiative. For what might seem, on the face of it, quite a modest investment, we can make quite a significant difference. As I have said, 25,000 people have experienced an uplift in their income as a result of living wage accreditation.

The other, more fundamental and wide-ranging, point is that not every element of the fair work approach that we are seeking to embed will necessitate new forms of funding. As we have pointed out a number of times, there are elements of conditionality in the public investment that we might make in specific companies through the fair work first model. That will necessitate not a different budget line, but a different approach, and much of what we are doing on fair work is predicated on that kind of culture change.

On the issue of women returners, we are investing a quite significant resource of £5 million over three years to support up to 2,000 women to return to the world of work after a career break. Nevertheless, I have made it very clear that, if meeting that challenge is left entirely to the Scottish Government, we will fail. We need wider buy-in, and we will have to work with employers through our agencies and engage directly with employer representative bodies and employers in order to embed that culture change.

**Colin Beattie:** I hear what you are saying, and I think that it makes sense. However, given the ambitions that lie behind the programmes, I do not think that £7 million seems that much.

**Derek Mackay:** I emphasise what Mr Hepburn just said about not looking at such figures in isolation. That funding might be for projects, certain budget lines or staffing, but the question is whether we are using the £42.5 billion of total expenditure to deliver a fair work nation. That will

include work on procurement, employment policies, conditionality and the leadership role that we play with the rest of society, including private business. We must ensure that such principles are being rolled out as a matter of policy, not just in individual projects.

The last time that I appeared before the committee, members rightly asked me why so few women were getting enterprise support, for example. Addressing that issue does not necessarily require a separate budget; instead, we need to understand the reasons behind the situation and work things through. This is as much about the policy to achieve our fair work ambitions as it is about financing. If we get the policies right, we will have transformational system change. Of course, we will also need to work with other stakeholders to ensure that the approach applies to the private sector, too, and that best practice is encouraged. That is why I am arguing that judgments should be based not on individual budget lines but on the implementation of the policy.

11:00

**Jamie Halcro Johnston (Highlands and Islands) (Con):** I have a follow-up question for Mr Hepburn. The target number of participants is 38,000 over three years but, so far, the quarterly statistics show that the figure has not exceeded 2,815.

**Jamie Hepburn:** I am sorry—I did not follow that point.

**Jamie Halcro Johnston:** So far, in the quarterly statistics that we have for starts, the highest figure has been 2,815. That suggests that the number of starts will not reach the target of 38,000 if that rate of progress continues over the three years. Either there will need to be a large increase or the target will have to be reduced. Do you expect the number of starts to increase over the next three years?

**Jamie Hepburn:** We have set ourselves a three-year target rather than individual year-on-year targets. The target is 38,000 over a three-year referral period and a five-year delivery period.

I make the observation that we are in quite an early phase of the programme, which involves a new approach. We are working with a variety of bodies to make sure that they are well acquainted with what is a new programme. We still rely primarily on Jobcentre Plus as the referral mechanism, but because we do not have direct responsibility for Jobcentre Plus, we have an agreement with the UK Government on how that relationship can be managed. We are working with it to maximise the number of referrals. In addition, we are working to ensure that there are new

referral pathways. That work is under way. We have set out a target of 38,000, and we will do everything that we can to meet that target.

**Jamie Halcro Johnston:** So you are confident that the target of 38,000 participants over three years will be hit.

**Jamie Hepburn:** We have set that target and I want to hit it.

**Jamie Halcro Johnston:** There are no figures for job outcomes and early leavers at this stage, although I appreciate that it is early days. When do you expect to get those figures?

**Jamie Hepburn:** We are still working our way through the process of determining at what stage it would be sensible to start reporting that information. It would not be meaningful to report it at this early stage. That information will be available in due course. The first set of statistical information, which was published in November, covered the first two quarters. Thereafter, we will publish information on a quarterly basis. We will continue to think about what additional information should be proactively published as part of those statistical releases.

**Jackie Baillie:** I have a very quick question for Mr Hepburn. Fair start Scotland gets three-year contracts, whereas employability fund contracts are for one year, which means that organisations are involved in an annual procurement exercise that is time consuming—it might divert their attention for two to three months. The committee recommended that there should be three-year contracts for the employability fund, but the Scottish Government's response was—it is being kind to describe it in this way—non-committal.

I am always keen to give the minister a chance to say yes. Will he now just say yes to having three-year employability fund contracts, because that is the right thing to do?

**Jamie Hepburn:** No.

**Jackie Baillie:** Aw—how disappointing!

**Jamie Hepburn:** I will expand on what, at face value, might not seem a very helpful answer. “Non-committal” can be viewed as a somewhat pejorative term, but I accept that, in our response, we have not committed definitively to doing what the committee said, so I accept that Jackie Baillie used the term in good faith.

We are looking at the issue. I understand the practical difficulties that can be caused for organisations, but we should always bear in mind the fact that the fair start Scotland programme and the employability fund are very different beasts. The employability fund is designed to be a much shorter and sharper intervention than fair start Scotland, which operates on the basis of the

specific individual who comes forward. Fair start Scotland might provide a fairly short, sharp intervention, but a person can be supported for up to 30 months so, by necessity, those contracts have to be of a significant length. The delivery requirement is not necessarily the same for the employability fund.

We are moving into a new world. On 5 December, we published the first steps in our review of employability provision. We have signed an agreement with local government to work on a more aligned and closer basis in the delivery of employability services. The employability fund provision, or that type of provision, is very much part of the review. I can say clearly that we have set out that we will explore how we

“could commit to multi-year funding to bring added stability”,

so that issue is in the mix in our consideration.

The other thing that I can say to add certainty for employability fund providers is that, for this financial year, we have agreed with SDS that it will roll over the contracts with existing providers to try to maintain stability of support, given that we are moving into the further review. I hope that that satisfies Ms Baillie somewhat.

**Jackie Baillie:** It is a maybe—the jury is out on that one.

**The Convener:** Before we move too far into this new world in which a Scottish National Party minister says no instead of yes and a Labour member says maybe, that is probably a good point to conclude the session. I thank both the ministers for coming.

I suspend the meeting briefly to allow for a changeover of witnesses.

11:05

*Meeting suspended.*

11:08

*On resuming—*

## **Enterprise and Skills Strategic Board**

**The Convener:** I welcome Nora Senior, who is the chair of the Enterprise and Skills Strategic Board. She has with her Stephen Boyle, who is head of the Scottish Government's analytical unit for the Enterprise and Skills Strategic Board.

I invite Nora to make an opening statement, after which we will move to questions from committee members.

**Nora Senior (Enterprise and Skills Strategic Board):** You will have to excuse my voice, as I have a bit of a cold.

Thank you very much for inviting us back to update you on what has been undertaken since I was last here. I have now been in position for about 14 months and the board has been in existence since December 2017—just over 12 months. We have met eight times during that period. We have examined evidence on the areas that will help to move Scotland's position in the Organisation for Economic Co-operation and Development charts and considered actions to improve productivity, wellbeing and sustainable economic growth.

There are a number of areas in which the board has achieved successfully, and I am happy to outline those in more detail in answer to questions. The aims of the board are to improve the overall performance of the enterprise and skills system to drive sustainable economic growth; to drive hard alignment between the activities of the agencies; to look at performance measures that give realistic insights into what the agencies spend money on and the return on that investment and allow comparisons; to look at how we encourage engagement with other agencies and bodies involved in the area of enterprise and skills business support; and to look at the culture and collaboration of the agencies.

We can demonstrate successful movement forward in each of those areas, particularly on alignment. We now have a more co-ordinated planning system between the Scottish Government and the agencies. We are looking at a process in which there are dedicated times for the agencies not only to develop and discuss their own plans but also to share ideas with one another, so that there is more opportunity for the agencies to identify where greater collaboration could take place and where duplication could be eradicated.

We have made initial progress on measuring impacts across a number of different areas. We produced our strategic plan and published it in October, covering the four main missions of business models and workplace innovation; future skill needs; business creation and growth; and exporting. We looked at a wider range of areas that we thought would have a positive impact on economic growth, and selected those four as the ones that demonstrated that they would deliver the most impact. Later this year, we will return to those that we did not select for the first tranche.

The committee has had some discussion today on fair work. The board has been successful in challenging the agencies on embedding fair work in their culture and values and in the plans that they are beginning to prepare. The agencies each hold a significant amount of data. The board has been successful in ensuring that there are ways in which the information can be shared more easily among the agencies and, importantly, with the Scottish Government's analytical unit for the board.

Most of all, the board has created a forum for discussion, not just with the agencies but with the wider business and learner communities and with those agencies, bodies and other organisations that are already involved in the area.

**John Mason:** I am interested in the overall picture and will leave the detail, on the analytical unit for example, to my colleagues. I will try not to stray into their areas.

Nora Senior mentioned a lot of things, such as hard alignment, sharing plans and avoiding duplication. What are the timescales? I accept that a year would be very quick. At what stage can we say that we are making progress towards the OECD targets or that there is more alignment?

**Nora Senior:** The strategic plan has a 20-year range, if all the actions are included. Being in the upper quartile of OECD countries will not happen overnight. There are some specific actions on hard alignment that will happen very quickly. For instance, the culture and collaboration piece will be very focused on the user—not on the services that the agencies deliver but on what the user needs. To assist, a group that is led by SE and includes HIE, SDS and business gateway is looking at having a single digital online point of entry. Basically, that is an initiative that will ensure that customers are able to access everything that our enterprise system, in its widest context, is able to offer. The beta system will be ready in the spring. In the next month or so, the programme group will look at how local authorities can also be involved in contributing to that single online point of entry, which I think is really important.

11:15

That work has a very short timescale. Our learning journey, with the change and the future skills agenda that we have outlined in the strategic plan, will take longer to deliver, because you cannot change an education system overnight. Our education system and how we learn need to change to accommodate the technological change that we are experiencing, as well as the change in work patterns that will take place throughout the next period. We will not have jobs for 30 years; we will have jobs for one, two or five years. There will be a continuous programme of lifelong learning, because people will need to upskill and reskill. Changing the education system and then the career system to support that will take slightly longer to do.

A range of timescales are embedded in the strategic plan. The performance measurement framework that the analytic unit is looking at will identify targets against timescales more specifically. We have seen the initial draft of the framework. The next discussions about that will probably be in March. After that, the framework will be embedded and adopted, so we should have a more transparent overview of a timescale for various key performance indicators.

**John Mason:** On the issue of the different organisations working together, being more joined up and having less duplication—if that is what we mean by hard alignment—you have said that you have your plan and that the agencies are beginning to prepare their plans based on that. Obviously, that will take a few years. In two years' time, will the committee see a noticeable change in the atmosphere and the relationships between the organisations? Will they all be going in the same direction by then, or is two years too soon to expect to see that?

**Nora Senior:** I would expect the business community to come back to your learner community and say that it sees a noticeable difference in how it can engage with the whole enterprise and skills system. I would be most disappointed if that was still in question in two years' time.

**Gordon MacDonald:** We have started to talk about the analytical unit, and you have said that the first draft of the performance framework will be available in March. What resource is available to the unit? What are the staffing levels? What size of budget has it got?

**Stephen Boyle (Enterprise and Skills Strategic Board):** Last May, the board agreed a proposal for an initial head count of eight people and a corresponding non-staff budget of up to £800,000 a year. The Scottish Government also agreed that budget request. At present, we have

five people in post, and we expect to bring others on board.

**Gordon MacDonald:** Are those five staff transfers from other Scottish Government agencies, or are they new people brought in from business, for example?

**Stephen Boyle:** Three of the team are employed by the Scottish Government, so they either were already members of the Scottish Government civil service complement, or have been recruited to the Scottish Government specifically to work with us. Those three are mainstream civil servants. Another is on secondment from Skills Development Scotland and another is seconded from the Royal Bank of Scotland.

**Gordon MacDonald:** Are the three remaining people to be recruited to fill specific gaps in expertise in the unit in order for it to be able to analyse all the data that is coming in about the Scottish economy?

**Stephen Boyle:** Yes. Two will be economists and one will be either a statistician or a social researcher—those are descriptions of roles in the Government and there can be grey areas between them. As I said, plans are in place to bring those staff on board

**Gordon MacDonald:** That is helpful.

The committee has carried out an inquiry into the economic data for Scotland. Are you satisfied that enough data is available to enable you to measure Scotland's performance and the outcomes of Scottish Enterprise, Highlands and Islands Enterprise and the new south of Scotland agency?

**Stephen Boyle:** State-of-the-art approaches to measuring the impact of such agencies do not terribly much rely on conventional economic statistics.

Let me illustrate that with a live example of something that we are doing. In round numbers, about two thirds of the budgets of the four agencies is spent on investing in people, whether we are talking about college and university provision through the Scottish Further and Higher Education Funding Council, or the apprenticeship programmes through Skills Development Scotland. We think that, building on work that SDS started, we can estimate the impact of that investment on productivity, equality and wellbeing, not by using conventional economic statistics but by using other data sets that enable us to track people as they move through the education and training system, so that we know what investments have been made in those people and what qualifications they have obtained. When those data sets are linked with others, we can follow a

person into the world of work and ascertain what impact the education and training has had on the likelihood that they will be in work and on their earnings. None of that is in the conventional territory of economic statistics that the committee considered.

**Gordon MacDonald:** You mentioned people's progress through education and into careers. How will you measure the impact on wellbeing, fair work, business models and innovation?

**Stephen Boyle:** That is trickier—there is no question about that. In a sense, the easiest bit to measure—although it is by no means absolutely straightforward—is the impact on productivity.

Let me give you an example of how we are tackling the question of wellbeing in the context of education and training investments. We are likely to use the approach to the measurement of wellbeing that the Office for National Statistics uses for the United Kingdom as a whole to compare people who have been through the education and training system with people who are identical in other respects. By comparing the wellbeing of the two groups, we can measure the impact that proceeding through the education and training system has had on wellbeing.

When it comes to the impact of agencies' activities in relation to fair work, we would adopt a similar approach, whereby we would compare what had happened to businesses that had participated in programmes or received agency support that had fair work as a condition of participating with what had happened to similar firms that had not participated in such programmes. Again, by comparing the two groups, we could measure the impact that fair work interventions had had on businesses.

**Gordon MacDonald:** Let me go back to my earlier question. Are you satisfied that the ONS data—which predominantly covers the UK, so only a small amount of it relates to Scotland—is adequate for the purposes of such comparisons?

**Stephen Boyle:** I do not expect us to rely very much on ONS data; we will rely on the different data sets that I have been talking about, many of which have been developed only in recent years.

**Gordon MacDonald:** Thank you.

**Colin Beattie:** From what you are saying, it seems that this analytical unit is, to a large extent, reinventing the measurements that it will use. To what extent can we make use of the experience of other countries or regions in that respect? Are we reaching out and looking at that information as we put these models together?

**Stephen Boyle:** Yes, we are. We can learn a very great deal from what others have done. Off the top of my head, I would say that we can learn

a lot in the education and training sphere from the work of the centre for vocational education research at the London School of Economics and the Institute for Fiscal Studies. Often they have done that work on behalf of other Governments or agencies, but just as often they have done it independently, and we can learn from that. Moreover, we can draw on good experience from Denmark with regard to assessing the impact of export support. We are very open to learning about what has been done elsewhere.

Something that we might well benefit from is the University of Strathclyde economics department's recent recruitment of a number of people with deep specialisation in the kind of impact assessment and evaluation techniques that are likely to be important to us, and we have had initial discussions about how we might be able to work with those people and about whether they can support our work.

**Colin Beattie:** Given the wide variety of organisations in Europe and, indeed, the UK that are trying to measure and make some sense of this data, how are you determining and evaluating which models are better than others?

**Stephen Boyle:** Perhaps I can go back to the work that we are doing—and which I have already described to Mr MacDonald—to assess the impact of the education and training investments made through SDS and the SFC. We have had an extensive review of examples of people in other places and countries undertaking similar work, and when we carry out that kind of work, we apply two filters. The first is the five-point Maryland scientific scale, which is used to assess the quality of a piece of evidence; on that scale, one is not very good, while five is state of the art, and we look for examples that are closest to the state-of-the-art end. Secondly, we use our team's experience and skills and apply our own judgment with regard to what is most relevant to us and our circumstances. I reiterate the point that we are very open to learning about what people elsewhere are doing well.

**Colin Beattie:** What specifically have you learned from elsewhere, and what measures are you applying here with regard to the return on investment in enterprise and skills?

**Stephen Boyle:** The principal lesson that we have learned is that many of the previous techniques for measuring the outcomes from these kinds of investments are, in many respects, flawed and inappropriate.

**Colin Beattie:** But does that mean that previous data and statistics will not be comparable with what is being done now? You say that the other measurements that were done in the past were flawed, but does the fact that you are reinventing

the whole basis on which things are measured mean that, for example, we will not be able to make a comparison of the average over a certain period?

**Stephen Boyle:** Let me explain briefly but in more detail what we are trying to do. With regard to education and training, the question that we are trying to answer is: what return are we getting on each pound spent on an apprenticeship or on a college or university place?

Previous approaches to answering that question were flawed in no small part because we did not have the data that would allow us to answer it. The type of approach that I outlined to Mr MacDonald deploys data that simply did not exist until very recently. If we had been before the committee two or three years ago, we would not have been able to talk to you about how we would use such data.

We hope to move beyond the approaches of the past to give different and better answers to the return on investment question. You are right to say that those answers will not be comparable with what might have been seen before, but I think that they will be more reliable answers.

11:30

**Colin Beattie:** As with all statistics, until we build our statistics over a period, we cannot do trend analysis and we will not really get the whole picture; we will just get a snapshot.

**Stephen Boyle:** That is correct; we have to wait for the trend analysis. If I take, again, the example of the education and training analysis that we are doing, I think that I am correct to say that we are now able to follow people who have been through the education and training system up to about their late 20s, and others have begun to build that time series. However, it is correct to say that we will not get much longer trend data for some time.

**Jamie Halcro Johnston:** Good morning. I was going to focus on some of the areas that Colin Beattie has just covered, but I want to expand the discussion a little bit and look at responsibility, accountability and the process.

On measuring the return on investment in enterprise and skills policy, Scottish Enterprise's suggestion that every pound spent results in £6 to £9 of gross value added came up again this morning. People may agree or disagree with that. Do you agree with it?

Obviously, the enterprise budgets are being cut. If people had a concern about budgets being cut while accepting the potential for GVA growth, how would they put that across? What would the processes be to make that known to the Government, in particular, and to the enterprise agencies?

**Nora Senior:** I will kick off, then Stephen Boyle can follow up with any other comments.

On your first point, about Scottish Enterprise and the return on investment, one of the challenges that the board has put to the agencies relates to their measuring themselves and their targets against companies and people who are already involved with the system—companies or people who, to an extent, therefore, are already on a trajectory. The big challenge for the agencies is to reach people who are not yet engaged in the system, because that is where the greatest growth could be. If people who have not been in that kind of marking system before are brought in, that will change the return on investment.

On whether I agree with what the agencies are putting forward in the context of what they mark, I still think that there is more than an excellent return. However, that has not resulted in an overall shift in productivity or economic growth, because there are still too many customers out there who are not engaged with the system at all and would benefit from greater help. That is one of the tasks that the board will set the agencies in order to widen their customer base.

On the second point, I refer to what Stephen Boyle said. The strategic board is not an operational board, so the targets and measures that we will look at will be at the macro level. We will look at the shift in productivity, inclusivity, equality measures, growth in economy and how many companies are moving up the growth scale. If those top-line metrics and measures show that nothing is moving, the board will challenge the agencies to come back and explain and to demonstrate why particular budget lines are showing growth and particular budget lines are showing no growth. The board would then challenge the agencies to explain and evidence why they have continued to place money and investment in the areas where there is not an acceptable return on the investment.

As well as doing that, the strategic board will challenge the agencies' own boards to revisit the issue so that they can come back and provide support for their decision to invest in those areas. That process provides an opportunity for review of where investment is being made and whether it could potentially be better placed.

Under each of the strategic plan missions, the board will look at the types of targets from an overall macro perspective, and the agencies will have to take those and deploy them through each of their individual plans.

**Jamie Halcro Johnston:** You talked about greater help but greater help might require at least the same budget. Is there a role for the board in challenging the Government if the board disagrees

with the cuts that are being made and how those might limit the provision of greater help?

**Nora Senior:** We would have to discuss that with the various ministers who are responsible for the agencies and make recommendations. It is not in our gift to make budgetary decisions, but we can certainly make informed recommendations around where we think investment ought to be made.

**Jamie Halcro Johnston:** Thank you.

**Dean Lockhart:** Last year, the committee issued its report “Scotland’s Economic Performance”, in which it expressed concerns that the enterprise agencies were marking their own homework when it came to setting and achieving performance targets. Do you share those concerns and how will the performance targets be set going forward? Will we see more transparency?

**Nora Senior:** I might have answered that question. The planning process is being put forward, the strategic plan has been created and the agencies are developing their own individual plans around the missions, as well as the other areas that they cover. The approach is that the agencies will hold themselves to account because they will have to share their plans before they are published, which has not previously happened. The process is still to be decided at the board’s meeting in January, but I anticipate that not only will the agencies share their own plans—which will obviously be looked at and reviewed by their agency board—with each other, but they will also be reviewed by the strategic board, in particular by the business members of the board, before they are signed off.

There should be greater transparency and understanding around the targets that are set. I think that the performance framework that is being developed by the analytical unit will also allow greater transparency around comparisons—in relation to not just GVA but the other elements that Stephen Boyle referred to—which will provide transparency for ministers in order to make decisions around where budgets ought to be placed.

**Dean Lockhart:** Is there any plan to publish or make public the enterprise agencies’ performance targets?

**Nora Senior:** Each of the agencies publishes the performance targets in their own business plans.

**Dean Lockhart:** My understanding is that the top-line targets are published, but Scottish Enterprise has, from memory, 72 different targets and I do not think that that second level of targets is made public.

**Nora Senior:** I cannot answer that but I am willing to go back and have a look. The performance targets that the strategic board will set will be around the macro level. The operational targets would have to be set by the agencies themselves. You raise a good point, so let me consider it and feed it into the discussion in January around targets and how they are reported.

**Dean Lockhart:** Thank you. I have a related question. The Scottish Government has recently moved away from a policy of setting specific economic targets. For example, it no longer says that productivity should increase to the first quartile. In the absence of specific economic targets, does it create difficulties for the strategic board in setting its own targets when it does not know what the overall macro-economic targets are for each of the economic components?

**Nora Senior:** I will let Stephen Boyle answer that. My own observation is that our aim is inclusive economic growth, so it is not just about economic growth and GVA and GDP themselves; there are other areas such as wellbeing, health and workplace innovation, which are all indicators that an economy is moving in a positive direction. Those are the types of criteria that are included in the performance framework that the analytical unit is looking at.

**Stephen Boyle:** The board retains the desire to see Scotland achieve top quartile performance in each of the areas of importance to it—productivity, equality, wellbeing and sustainability—and I expect that to continue to guide the approach that the board takes.

**Dean Lockhart:** Nora Senior, you mentioned inclusive economic growth, which has been referred to as lacking definition. Is there now an agreed definition of what it is and how it can be measured?

**Nora Senior:** I would have to say no, because if I asked five different businesses, Government officials or politicians, each would probably use different words and a different definition. That is part of the challenge. When it comes to inclusive economic growth and fair work, businesses in particular get confused about what we are talking about because they sound like a Government mandate, when actually we are talking about good working practice.

If you asked people in business whether they would be willing to consider having a workplace where they included their workers, gave them a voice and looked at equal opportunities, most of them would say, “Of course.” The majority would think that they were already doing that, but because we give it a name such as fair work, people think that we mean something else. The



language that all of us use needs to be much more consistent, and we need collectively to look at definitions. We will certainly look at the words that the strategic board will use, which will be embedded in the agencies.

What emerged for the board was that each of the agencies had a different understanding of inclusivity and fair work. We will therefore look at having a consistent approach and form of words that the agencies will all buy into, and that will be embedded in the work on culture and collaboration.

**Dean Lockhart:** The Scottish Fiscal Commission has forecast GDP growth of around 1 per cent for the next four years. How far off is that from trend growth and Scotland's potential?

**Stephen Boyle:** How far 1 per cent is off—

**Dean Lockhart:** How much does that figure diverge from trend growth and Scotland's potential?

**Stephen Boyle:** Over a long period of time—between 50 and 60 years—Scotland has probably grown at an average annual rate of just south of 2 per cent. In the 10 years after the financial crisis, we grew in total by about 1 per cent. The Scottish Fiscal Commission's projection of 1 per cent a year over the next few years is materially better than what happened in the immediate aftermath of the financial crisis, but is materially poorer than the longer-term trend.

**Dean Lockhart:** So 1 per cent is the new normal.

**Stephen Boyle:** We can observe that, across most advanced economies, there appears to have been a step down in the growth rate—it pre-dates the financial crisis and probably happened towards the end of the 1990s and the early part of the 2000s. Despite what we all read, and what some of us sometimes say, about the pace of change, it is not manifesting itself in productivity growth across much of the western world. Scotland is part of that story, with the added factor of slow population growth.

**Nora Senior:** There are other external factors, such as Brexit. I do not want to bring in the Brexit debate but it could have a significant impact, as will technological change and the ability of both businesses and our educational system to adapt to digital disruption and climate change. It would be difficult to say which of the elements that are out there might have a more severe impact on that 1 per cent.

11:45

**Jackie Baillie:** The enterprise and skills review did not include consideration of business gateway,

but the board quite rightly identifies business creation as one of its missions. How can you influence what goes on in business gateway?

**Nora Senior:** Again, looking at it from the user perspective, we see business creation as critical because if we do not create enough businesses, we do not have enough businesses moving into the middle and onwards and we rely too heavily on a small number of large companies. We need the pipeline to be bigger, so we rightly recognise the important role that business gateway plays—so much so that we invited both business gateway and the Scottish local authorities economic development group to our November board meeting in order to have an open discussion about how the agencies and the enterprise and skills system could work much more cohesively.

Businesses start off through the business gateway, but we need better cohesion and better customer experience so that businesses move through the system at the right time and can move from local to regional and national in a seamless, rather than a disjointed, transition. Someone looking at the situation as an outsider would see that that disjointed journey comes from not only the agencies but their portfolios. Where there is division around budgets and delivery, there is the challenge of disjointedness.

Again, the business gateway point is embedded in the culture and collaboration work. This is about looking at not just how the agencies work but how the local authorities, business gateway and regional economic partnerships work. That is why we made the recommendations in the strategic plan on closer working relationships and making the journey more streamlined not just for the user but internally, although the user is the most important factor.

**Jackie Baillie:** If I was being kind, I would say that the committee regards performance as patchy, given the evidence that we have been given. Is there a role for the analytical unit to look at some of the data that underlies performance and to give us an in on lifting standards across Scotland?

**Stephen Boyle:** We would be open to that. I have had an initial discussion with business gateway about its approach to evaluating its impact. We are not able actively to help it at the moment, but I am certainly open to doing that in the future.

**Jackie Baillie:** That is very helpful. Thank you.

**Angela Constance:** Ms Senior, in your opening statement you said that the board is now much better placed to challenge agencies on the implementation of fair work, and throughout this evidence session both you and Stephen Boyle have spoken a lot about the availability of data and

the importance of scrutinising it. The guest speaker at your board meeting in August, Patricia Findlay, said that

“the system, e.g. business support, is not set up to support fair work. The value of adopting fair work is recognised and accepted but not mainstreamed”.

Does the board agree with that assessment? If so, why has fair work not been mainstreamed, given that it has been a Government priority since 2015?

**Nora Senior:** That is a fair comment. Patricia Findlay is right that fair work is not mainstreamed in the agencies or our businesses. That is partly because, as I have said, businesses do not understand what such mainstreaming means.

One of the board's four missions covers business models and workplace innovation, which includes fair work. The board is completely behind fair work and believes that it must be central to everything that is being done.

We were fortunate enough to draw on Pat Findlay's advice on developing our proposals in that area, on which we have set the agencies a number of actions. The first is to deliver a campaign to promote understanding of the possible impacts on productivity of the adoption of fair work, workplace innovation and different business models. The second action builds on the Scottish manufacturing advisory service's diagnostic model and is to identify businesses that can benefit from innovation and the adoption of better working practices through the fair work model. Developing new cross-agency teams will drive the adoption of fair work and other management practices.

In answer, I think, to a question from Angela Constance, the cabinet secretary talked about fair work and whether the businesses that fail do so because they are not more transparent. Management practices can be poor in some businesses in Scotland. Communication and the creation of new cross-agency teams that will deliver a consistent message about fair work will be important.

Again, we recommended to the Government that any support that comes from the agencies should have fair work practices as a condition.

**Angela Constance:** Where does social partnership sit in all that? The Scottish Trades Union Congress and Jim Mather led a bit of work and reported on their findings in the “Working Together Review”. Given the links between good social partnership and productivity, how well placed is Scotland in beginning to motor ahead with social partnerships, or are we still some distance from the races?

**Nora Senior:** Scotland benefits from its size and scale. It has more of an opportunity to engage

and have dialogue with a much wider bank of stakeholders than many of our competitor countries have. The strategic board has acted as a catalyst for dialogue not just between the agencies but with a wider bank of organisations. That engagement has the potential to continue and grow.

**Andy Wightman:** In response to Jamie Halcro Johnston's earlier question about the budget, you rightly said that you do not make any budgetary decisions. Did you make any recommendations about the budget to the finance secretary this year?

**Nora Senior:** In truth, we did not, really, in terms of pounds, shillings and pence. However, we made strong recommendations on the missions and where we think emphasis ought to be—business models, innovation and fair work, for example. We did not make recommendations on the budget.

We have tasked the agencies to look at how they will use their budget collectively, and the funding council is looking at how it can give some of its budget to SDS for career progression, upskilling and reskilling. The task is for the agencies to take on that responsibility and to bring that to the board for discussion and review.

**Andy Wightman:** You mentioned the Scottish funding council and South of Scotland enterprise—

**Nora Senior:** No—I mentioned SDS.

**Andy Wightman:** I apologise.

Will there be more flexibility around transfer of money between the agencies that you co-ordinate, or has that discussion not happened?

**Nora Senior:** We have not considered that yet. The board will meet at the end of January to discuss its priorities for the next two years. Within that discussion, there will be a discussion for the agencies about how we task them to demonstrate where greater collaboration and shared resources are happening. Therefore, I suspect that movement of budgets, which is outside our domain, will have to be decided between the agencies, their Government sponsors and ministers.

**Andy Wightman:** Are you examining that in terms of efficiencies, which we discussed with the cabinet secretary this morning?

**Nora Senior:** Yes.

**Andy Wightman:** What is the role of the board with regard to the Scottish national investment bank?

**Nora Senior:** We talk to the Government and we make recommendations. The national

investment bank's work will be of interest to us. There will be areas of investment—infrastructure and exports, for example—on which we will want to feed in, but we do not have a formal relationship. If we were to have such a relationship, that would require a decision by the Scottish Government.

**Andy Wightman:** On future challenges in enterprise and skills, you hinted at population, Brexit, climate change and so on. I am not asking you to look into a crystal ball or anything, but you mentioned that you are working to some timescales of the order of 20 years, and you mentioned changes in people's expectations of what a job is, how long it might last, what might be required in terms of sustaining employment and so on. What will be the key challenges to the enterprise and skills environment over the next 10 years?

**Nora Senior:** I think that the issue of skills is a major challenge. There are many opportunities with regard to which Scotland needs to be fleet of foot. Issues around manufacturing development, exports, upskilling and reskilling, and digital disruption all impact on how Scotland performs. The ability to have a flexible education system that can look at issues around demand-led jobs, and can also create new higher-value innovations, will be one of our key challenges.

**Andy Wightman:** Can you say a little more about digital disruption?

**Nora Senior:** Automation is an important issue, in that regard. Many of our manufacturing industries could benefit from more innovative adoption of digital technologies. However, many of those companies are not yet engaged with the enterprise and skills system. That goes back to the challenge that I mentioned at the outset, which was that the challenge does not simply involve working with companies that are already in the system; it also involves working with those that have not yet engaged with the system.

**Andy Wightman:** Have the board or any of the agencies that you work with made preparations for a no-deal Brexit?

**Nora Senior:** Yes. In November, we had a comprehensive presentation on a collective response to a number of different Brexit scenarios. There is a comprehensive website that the agencies have collectively launched to deal with Brexit and queries around Brexit.

Part of the challenge concerns the fact that business is ambivalent about responding and is closing its eyes, in a sense. Depending on what happens at the end of March, there might be a rush to the agencies to get assistance. That is why the board tasked the agencies with coming up with a collaborative Brexit response.

**The Convener:** I understand that we are behind some continental European countries on automation. Have you identified how Scottish companies could be encouraged to automate more? Automation does not necessarily mean loss of jobs, of course, because the introduction of automation can often increase production, which results in more jobs. Do you have a view on that?

**Nora Senior:** The board has not seen evidence on that. An area that the board will consider, and which we did not consider the first time, is innovation in research and development. The analytical unit is preparing some background information on that, which takes into account companies that are already benefiting from the adoption of digital technology and those that are not, and involves a comparison with the situation in some other OECD countries. That piece of work will not be ready until sometime between March and the middle of the year.

12:00

**The Convener:** You talked about digital, but I am also thinking of automation—the use of machines to do work. The use of digital technology is part of that, of course; these days, you cannot really separate the two.

**Nora Senior:** I meant both. Going back to the Scottish manufacturing advisory service's model, it is already looking at companies that are benefiting from automation. Rather than reinventing the wheel, the aim is to work in partnership in order to gain insight and knowledge from those findings and so that the agencies can touch the companies that could benefit from automation.

**Dean Lockhart:** I have a general observation to make, provided that we have reached the end of questions.

**The Convener:** I would be grateful if you could make the observation brief.

**Dean Lockhart:** A number of the initiatives and measures that Nora Senior has set out are welcome and sensible, but what you have said begs a question about what was happening previously. Was there a lack of strategic direction and a lack of alignment of the agencies? Do you have an observation to make on what was done previously?

**Nora Senior:** Do you want me to give a personal opinion or a strategic view?

**The Convener:** Do you feel that you are in a position to answer the question?

**Nora Senior:** Yes. To an extent, I answered it the last time I appeared before the committee. I asked the analytical unit and Government departments to give us evidence on what had

happened in terms of a sector-based approach. My reason for asking was that I wanted the board to understand what the future analytics for the sectors that we had looked at would be. We did not have that predictive information, so I asked for information going back five years and 10 years so that we could see what the trend was. The trend showed clearly that, in six of the seven sectors that were looked at, there was no substantial economic growth. Therefore, personally, I think that the approach was flawed, because high growth can come from anywhere. It does not need to come from a particular sector; it can come from a different place or region, or a different type of industry.

However, there are always debates about such matters. Some people always say, "You need to go for the next big thing and put all your money in that," but the reality is that we do not know what the next big thing will be, so one way is as good as another until we monitor and provide evidence on the effect. My challenge would be about why we took a sector-based approach for so long without deciding to review it, or to change course and do more or less in particular areas.

**The Convener:** Thank you very much.

I suspend the meeting briefly to allow our witnesses to leave.

12:02

*Meeting suspended.*

12:03

*On resuming—*

### **European Union Structural and Investment Funds (EU Exit) Regulations 2018**

**The Convener:** Under agenda item 4, the committee has been asked to consider a notification from the Scottish Government relating to the European Union Structural and Investment Funds (EU Exit) Regulations 2018. The notification relates to arrangements for regulations on structural funds—the rules that govern the funds and give powers to the Secretary of State for Scotland or a devolved authority to ensure operability of eligible projects. In the event of a no-deal withdrawal of the UK from the European Union, the regulations would no longer be operable and the programme would be administered domestically. Funding would follow as a result of the Treasury commitment that all funding that has already been committed for projects before the UK leaves the EU will be honoured. The relevant regulations are being partially or fully revoked, as set out in the notification.

Is the committee content for the issues to be dealt with by statutory instrument laid at Westminster?

**Members indicated agreement.**

**The Convener:** The committee is content with that, so I will write to the Minister for Trade, Investment and Innovation to notify him of the committee's decision.

12:04

*Meeting continued in private until 12:52.*

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