



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Economy and Fair Work Committee

**Wednesday 29 September 2021**

**Session 6**



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**ECONOMY AND FAIR WORK COMMITTEE**

**6<sup>th</sup> Meeting 2021, Session 6**

**CONVENER**

\*Claire Baker (Mid Scotland and Fife) (Lab)

**DEPUTY CONVENER**

\*Colin Beattie (Midlothian North and Musselburgh) (SNP)

**COMMITTEE MEMBERS**

- \*Alexander Burnett (Aberdeenshire West) (Con)
- \*Maggie Chapman (North East Scotland) (Green)
- \*Jamie Halcro Johnston (Highlands and Islands) (Con)
- \*Fiona Hyslop (Linlithgow) (SNP)
- \*Gordon MacDonald (Edinburgh Pentlands) (SNP)
- \*Colin Smyth (South Scotland) (Lab)
- \*Michelle Thomson (Falkirk East) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

- Colin Cook (Scottish Government)
- Kate Forbes (Cabinet Secretary for Finance and the Economy)
- Gary Gillespie (Scottish Government)
- Helena Gray (Scottish Government)
- Ivan McKee (Minister for Business, Trade, Tourism and Enterprise)
- Richard Shearer (Scottish Government)

**CLERK TO THE COMMITTEE**

Anne Peat

**LOCATION**

Committee Room 4



## Scottish Parliament

### Economy and Fair Work Committee

*Wednesday 29 September 2021*

*[The Convener opened the meeting at 10:00]*

### Decision on Taking Business in Private

**The Convener (Claire Baker):** Good morning and welcome to the sixth meeting in 2021 of the Economy and Fair Work Committee. Our first item of business is a decision on whether to take in private items 4, 5 and 6. Are members content to take those items in private?

**Members indicated agreement.**

## Economic Recovery

**The Convener:** Our main item of business is an evidence session with the Cabinet Secretary for Finance and the Economy on support for economic recovery. It was the cabinet secretary's intention to appear in person but I understand that that has not been possible.

I thank the cabinet secretary and her officials for joining us. Welcome, cabinet secretary. I also welcome from the Scottish Government Colin Cook, director of economic development; Gary Gillespie, chief economist; and Helena Gray, interim director of fair work, employability and skills.

The purpose of this evidence session is to consider policies and actions to promote economic recovery. The evidence will also inform the committee's input to the Scottish Government's budget for 2022-23.

I invite Colin Beattie to make a declaration of interests.

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** This committee considers tourism as part of its remit. I direct members to my entry in the register of members' interests: I am vice-chair of the National Mining Museum of Scotland, which of course is a superb tourist destination.

**The Convener:** Thank you, Mr Beattie. I invite the cabinet secretary to make a brief opening statement.

**Kate Forbes (Cabinet Secretary for Finance and the Economy):** Good morning. At the outset, I apologise for not being able to join the committee in person. I can assure you that only Covid would keep me from an in-person session of committee scrutiny—I am sure that members are quite relieved that I am not with you in person. Nevertheless, I welcome the opportunity to give an update on the Scottish Government's plans to deliver economic recovery, and on the 10-year national strategy for economic transformation, which is due to be published in late autumn.

I think that we all agree that Scotland's economy continues to face challenges as a result of the pandemic. Those challenges have been exacerbated by exit from the European Union. Economic recovery clearly needs to be a joint endeavour, and I look forward to working with the committee and to taking on board your suggestions on how we might do that as well as possible.

I do not think that we can let those current challenges diminish our ambitions for a stronger, more sustainable and more inclusive economy that is pro-prosperity, pro-business and pro-jobs.

Our most recent programme for government set out our plans to support recovery by investing in people, places and businesses so that we can grasp the opportunities that lie ahead. That includes more than £1 billion in 2021-22 for our national ambition for jobs and to equip our workforce with the skills for the future. We will also push forward with a just transition to net zero, supporting innovation and new Scottish industries and, I hope, getting the opportunity to showcase our strengths as Glasgow hosts the 26th United Nations climate change conference of the parties—COP26.

I am clear that the national strategy for economic transformation must make the most of our huge potential in Scotland to align recovery with our ambitions for a wellbeing economy that is based on the principles of equality, sustainability, prosperity and resilience. I am sure that those are principles that none of us would disagree with.

That work is continuing at pace. It lifts our eyes beyond the immediate challenges, which I recognise many businesses are still confronted with, and looks ahead to the longer term. The strategy will transcend multiple parliamentary sessions and will deliver the long-term structural change that we need, not only to ensure recovery in the short term but to harness our ambition of delivering a fairer, greener and more progressive future. Because the strategy transcends multiple parliamentary sessions, I am sure that the committee will have a view, reflecting different party-political positions, which I look forward to discussing.

**The Convener:** Thank you, cabinet secretary. I have a few questions about the 10-year strategy. You say that it is expected in autumn. Are there any more details that you can share with the committee about when it is likely to be published?

We have received some correspondence about the consultation. We received a letter from the transform our economy group, which held a conference recently. I understand that there was a four-week consultation during the summer, but there is a feeling that there has not been enough engagement with the strategy. Once the strategy is produced, are there any further opportunities for engagement, or will it be presented as a done deal and as a strategy that people cannot comment on further?

**Kate Forbes:** You raise an important point. I have been clear that, because it is a 10-year strategy, and because we all have an interest in economic recovery, we have a duty to engage as widely as possible. We had the formal consultation that you have referred to. Gary Gillespie may want to comment on some of the themes that have emerged from the consultation, if you are interested, but there was a lot of response to it.

However, that is not the only way in which we have been engaging. We have also been engaging one to one with an extensive list of organisations, including businesses and third sector representatives. We have thematic groups that are taking evidence from different parts of society and our economy.

Running alongside all of that is the advisory council, which I hope the committee would accept has quite a broad interest through its representatives from rural and urban Scotland, big business and small business, as well as economists and industry leaders.

I have certainly tried to make sure that input to the strategy has been as broad as possible. If any organisation would like to engage further, my officials and I would be very happy to engage. Even if they are not part of the formal consultation, we are open to taking any written submissions and reflecting on those.

**The Convener:** Mr Gillespie, do you have anything to add about the consultation and the way in which people have been involved in the decisions that are being made? *[Interruption.]* I do not think that we have Mr Gillespie with us at the moment—that is one of the challenges of having remote witnesses. *[Interruption.]* No, he is here. Good morning, Mr Gillespie.

**Gary Gillespie (Scottish Government):** Is that better, convener?

**The Convener:** Yes, it is.

**Gary Gillespie:** Sorry—I did not realise that I had the ability to switch on my own camera and mic.

As Ms Forbes said, the consultation ran for approximately eight weeks. We received around 260 responses from the wider public sector, the private sector, the third sector and so on. Alongside that, we have been doing extensive engagement with industry leadership groups, enterprise agencies, our regional partners, local authorities and so on. We have been engaging across the piece.

We will provide the committee with the emerging themes from the consultation in due course, when we publish the strategy, but they are around opportunities with net zero and the circular economy; place—how we can strengthen interventions across Scotland; our data and digital infrastructure; foreign direct investment; jobs; skills; governance; ideas about how to transform the economy; the energy transition; and data, digital and tech. Quite a wide-ranging set of recommendations and ideas are coming out. The consultation continues and we are still engaging until the strategy is finalised.

**The Convener:** You have described engagement and the consultation, but how are any tensions that come out of that being resolved? Is that for the Government to decide?

I mentioned that we had a paper from the transform our economy group, which had summit recently. That group has views on how a transition to net zero should take place, but I imagine that there are different positions on that among businesses. Is it the Government's role to reach a consensus on the various positions that are coming forward? How is that done?

**Gary Gillespie:** I will respond to that, but Ms Forbes might also want to come back in. I think that you are referring to a conference that was held last week, which Ms Slater participated in on behalf of the Government in relation to the focus on the national strategy for economic transformation.

At the outset I note that the transition to net zero is central to everything that we do. On how tensions are resolved, that is done within Government, through advisory council and ultimately by Cabinet, and by Parliament, when the strategy is set out and published.

I suppose that you are asking whether we know about the tensions and the differences of opinion around some of these issues. Ultimately, there will be differences of opinion in different areas, but I think that those are for the Government to resolve through wider engagement.

**Kate Forbes:** Can I come in on that, convener?

**The Convener:** Yes. I will add a question, first, and then we will move on to Fiona Hyslop.

Can you also comment on the recent Audit Scotland report that raised issues around the difficulty with defining current Government spend and Covid spend, and with trying to track budgets against spending? The report said that it is difficult to distinguish between funding streams.

**Kate Forbes:** The short answer to your first question is that that is why we have an advisory council. I do not think that there is any doubt that there are some difficult choices to be made. We need only look at our inboxes, as constituency and regional MSPs, to know that there are differences of opinion about what we should do and what we should prioritise.

At the end of the day, we have to base our response on the consultation and on the advisory council's debates and deliberations in order to come to a position and ultimately to prioritise for the long term. We have seen internationally that countries that decide on their agenda and stick to it for a longer period see returns and changes. That is what we are keen to do.

On the financial position, the Audit Scotland report highlights one of the challenges for us. In my role as finance secretary over the past year, I have seen the United Kingdom Government distinguishing less and less between Covid funding and non-Covid funding—for good reason. With a lot of our support, it is challenging to distinguish what has become business as usual and what has become specific business support.

I refer you to the recent announcement of £25 million for ventilation. In a sense, that is very specifically Covid related, but businesses have had to adapt what they are doing, which has become business as usual. I certainly want to be as transparent as possible. With the recent publication of the autumn budget revision, we are updating the budget with the most recent information on consequential funding. We will continue to be transparent about the funding that comes to us.

A difficulty is that, this year, we do not have a budget guarantee. Last year, when the UK Government announced funding, it did so alongside a guarantee that the money would not reduce. This year, our funding will be confirmed only at the main supplementary estimate, which usually happens in February. Therefore, until February, we are dealing with estimates. That is not a complaint; it is just a fact. The figures can go up or down, and we need to make sure that, in formally updating the budget, what we put in the budget revision is based on as much fact as possible, rather than on estimates, so that it aids the Parliament's scrutiny of our budget position.

Audit Scotland's report reflects on what has been a challenging budget situation—not in terms of the money that we have but in relation to keeping track of what the UK Government has announced, the figures that are still estimates and the money that has been confirmed as fact.

**The Convener:** Thank you, cabinet secretary. I now hand over to Fiona Hyslop, who will be followed by Jamie Hepburn.

**Fiona Hyslop (Linlithgow) (SNP):** Good morning—it is good to see everyone.

My first question is to ask for your assessment of the current economic situation facing Scotland—not just the immediate pressures, but what you see over the coming year and how you will reconcile the tension between your 10-year national strategy for economic transformation and a budget that has to deal with the short-term pressure that Scotland is facing immediately. I put that question to you first, cabinet secretary, but you may want to bring in Gary Gillespie.

10:15

**Kate Forbes:** There are lots of very good points in there. I will give a brief reflection on where we are now and refer to two things. One is gross domestic product and the second is the labour market, which broadly track the position in rest of the UK over the Covid period.

Our latest data on GDP shows that Scottish GDP fell by 0.2 per cent in July 2021 but grew 3.4 per cent over the three months to July. That means that our GDP is 2.4 per cent below the pre-pandemic level in February 2020. That broadly tracks the position in the rest of the UK—it broadly reflects where the rest of the UK is. The same goes for our rates of employment and unemployment: the employment rate is 74.1 per cent, and the unemployment rate is 4.3 per cent. Those are the rates for May to July 2021, and they continue to compare well with historical trends.

I have more concern about the outlook for businesses in relation to cost inflation and labour market shortages. We know that UK inflation rose by 3.2 per cent in the 12 months to August. The Bank of England forecast that it would temporarily rise further to 4 per cent this year, which will have an impact on businesses in particular. Alongside that, it has been well documented in the press that we are facing severe challenges with energy prices and the knock-on impact of that.

There are also labour market shortages, with businesses struggling to recruit. That is certainly coming through loud and clear from businesses in multiple sectors—from financial services all the way through to tourism—in which there is a reliance on not just heavy goods vehicle drivers but all skills, including care homes. Those shortages will add costs to businesses that are already struggling to keep their head above water post pandemic. That is my very brief summary of the situation.

On the budget, you highlight the critical point that, for the past few years, we have been able to budget only from year to year because there has not been a spending review at the UK Government level. We were promised one last autumn but, for understandable reasons, it was delayed. I am very hopeful that the spending review that the UK Government is publishing will, alongside its budget, give us the multiyear outlook that allows us to plan. That will not allow us to plan a 10-year budget, but it will at least give us a three to four-year outlook, which will be of benefit to local government. It will also be of benefit to businesses because they will get that multiyear certainty.

I do not know whether you want Gary Gillespie to come in, convener. I will leave it to you to bring in others on the outlook for the economy.

**The Convener:** Mr Gillespie, do you wish to comment?

**Gary Gillespie:** Yes—I will add a couple of brief comments to what the cabinet secretary said.

On output and the labour market, we are in a stronger position than was forecast, even in January. The Scottish Fiscal Commission suggested that output would return to pre-pandemic levels early next year. The Bank of England is suggesting that that could happen at the end of this year for the UK, which is a much stronger recovery than was envisaged and reflects the fact that, as things opened up with a return of confidence and face-to-face services, people responded.

On the labour market, furlough comes to an end later this week. Our data suggests that just over 3 per cent of private sector employees were still on furlough in Scotland in September. The evidence from Her Majesty's Revenue and Customs is that more than 90 per cent of people leaving furlough are going back into employment.

As Ms Forbes said, we are seeing a rising number of job vacancies of an order of magnitude that is close to the level of unemployment, so there is mismatch in the labour market at the moment. That reflects wider factors that relate to the loss of EU labour and the number of workers in the economy being down over the year.

The position is much changed. The immediate challenges for businesses relate to the point that Ms Forbes made about input costs and supply chain issues—the ability to get the right supplies on time to meet orders and demand. It is a different set of circumstances at the moment.

In the context of the 10-year national strategy for economic change, with the recovery from Covid and the impact that Covid has had over the past 18 months or so, which comes on the back of EU exit and the changes to how people live and work, there is a lot of change in the economy. I think that that is being played out as multiple impacts at this time.

**Fiona Hyslop:** My other question is about pressures on businesses and the support that they are telling you they will need over the coming year, in particular. Energy wholesale prices and other pressures will, as we have heard, impact on their ability to be successful. In relation to the employment pressures that we have just heard about, it will be a case of reskilling, upskilling and so on. What is your perspective on employability support in relation to skills, in the short term, as opposed to other business requests that we have had in recent years because of Covid, Brexit and other issues? Your comments on that would be helpful.



**Kate Forbes:** Skills is probably the most important area of intervention right now. I have already talked about labour market shortages; the latest figures for the week to 17 September show that online job vacancies are 33 per cent higher than they were in February 2020. There are a lot of vacancies out there. We need to ensure that we line up the people who are looking for work with the available job vacancies. Two of the most important interventions that we have—which Fiona Hyslop will know better than I do because she had the vision to establish them—are the national transition training fund and the youth guarantee, which ensures that young persons in particular are lined up with work. There is no shortage of work, but we must ensure that people acquire skills through the national transition training fund or the young people's guarantee in order to ensure that they get into work.

I have quite a stark comment to make. Even if everybody who is currently looking for work was working there would be shortages. The bottom line is—we see that the UK Government is accepting this—that we have, as an economy, valued enormously people who have come to this country to work. People who might previously have considered coming here to work are no longer doing so, which might be because of high visa costs or because they no longer feel welcome. There are all sorts of reasons why people are no longer coming to this country to work. At the end of the day, although the Scottish Government can say that they are welcome and that we really need them, emigration from, not immigration into, Scotland has been the big problem. We value the people who choose to make their homes here, but we do not control immigration policy.

A number of businesses have come to me—I am sure that they are coming to other members, as well—to ask for help and support on waiving of visa costs, for example, which is not within the Scottish Government's control. They have asked for schemes that replicate the soft-fruit pickers scheme that would allow heavy goods vehicle drivers and others to come into this country, but we do not have such levers.

In direct answer to the question, I say that there are two means of resolving the matter and supporting business. One is the skills agenda, which I have touched on, and the second is that, as a country of 5 million people, we value the contribution that is made by people who choose to come to this country.

**The Convener:** Thank you. I apologise to Jamie Halcro Johnston for changing his name and his political allegiance earlier. Jamie Halcro Johnston will be followed by Colin Smyth.

**Jamie Halcro Johnston (Highlands and Islands) (Con):** I think that it should probably be

Jamie Hepburn to whom you apologise. *[Laughter.]*

Good morning. The committee has discussed supply chain issues and is obviously looking at issues around energy and so on. On the points that have just been made in what the cabinet secretary said, does that mean that there might, looking towards the 2022-23 budget, be more focus on building resilience into our economy? We have talked about opportunities that we are finding, including more local sourcing and procurement. Will there be increased focus on building in resilience, on innovation and so on?

**Kate Forbes:** That is a good question; it is something in which I am taking an active interest. You will be familiar with the limits under our procurement rules and procurement law in relation to local content, for example. I would value the committee's views on how we might better use procurement to embed resilience in respect of things like procuring local content. There are limits to what we can do, under procurement law.

I will take a step back from procurement to look at the wider point. If our country has learned anything from the past two years it is, first, just how resilient our businesses are already and, secondly, how important it is to build on businesses' strengths to ensure that we become more resilient.

As you can imagine, writing a 10-year strategy is hugely challenging because we do not know what challenges might be around the corner. We certainly did not foresee the pandemic and, I think, some challenges that we are currently facing were not foreseen by the UK Government. Building in resilience is important.

I also recognise that we are exposed to forces that are outwith the Scottish Government's control. I have already referred to labour shortages on which urgent action needs to be taken; the problem could be solved with a fair degree of ease if steps were taken on visas and immigration policy. I think that the UK Government has accepted that in with its most recent announcement on HGV drivers. The question is whether that is too little too late; it should have been done more quickly.

**Jamie Halcro Johnston:** Thank you very much. There are a number of areas in which the Scottish Government does not have responsibility, but there will be areas in which improvement can be made within the powers of this Parliament. I hope that there will be a focus on that.

There has been a huge focus on economic development agencies and VisitScotland supporting businesses through the pandemic. As has been rightly pointed out, continued support for existing businesses and sectors will be needed.

For the current budget and the anticipated budget for 2022-23, where do you think the focus will be in relation to supporting existing businesses while also providing support for new businesses and new entrepreneurs, which will be so important for economic recovery? Are you confident that they will have support in the budget to do that?

**Kate Forbes:** All those things will be considered very carefully in the run-up to publication of the budget. The enterprise agencies—you also mentioned VisitScotland; there are a number of other public bodies that have important roles to play in economic development—need support. They need the right support because often the best support that they can provide to businesses is wraparound guidance and advice. For a business that is trying to get into an export market, Scottish Enterprise and Scottish Development International have the skills and resources to help it. Often businesses need guidance and advice more than they need financial support, although we need to make sure that financial support is available. Jamie Halcro Johnston talked about resilience and developing supply chains; it will be important to ensure that they are dealing with mitigating the people and skills shortages.

This year we have invested a combined total of £347.8 million in our enterprise agencies, which was an uplift of almost 17 per cent. That reflects the need to support businesses. One of the challenges that we will face in next year's budget is a significant reduction in financial transactions funding. Some of the support that we have previously given to enterprise agencies was in the form of financial transactions, which have allowed enterprise agencies to provide the right kind of support to businesses that were looking not necessarily for grants but for short-term financial support. The UK Government is moving away from providing FTs because of changes to its housing-supply programme. That means that our spending power will decrease, so we will need to look at other ways of providing funding, through a very challenging budget.

10:30

**Jamie Halcro Johnston:** The Economy, Energy and Fair Work Committee legacy report from the previous session—I had been on the committee but was not involved in that report—talked about how difficult it is to measure outcomes from the development agencies in particular. Has there been any work done to improve our ability to work out the size of the bang for the buck in investment in our development agencies?

**Kate Forbes:** I have been raising the issue of measuring outcomes in discussion with all the enterprise agencies since I first took post. They

have metrics of their impacts that they publish publicly, which I can share with the committee. Some performance in businesses is quite difficult to measure. We look at how many jobs have been created, for example, but that might not be the best metric for a small business that is just starting out.

We need to be careful with applying blanket metrics, because that might distort what businesses are trying to do to be successful. The point was brought out in Mark Logan's report on developing the tech industry, in which he criticised the fact that we often look at job creation as a measure of success without realising that maybe the worst thing for a small entrepreneur to do at the outset is to try to create multiple jobs instead of growing first then creating the jobs.

I am happy to share more with the committee after this conversation and certainly share what—*[Inaudible.]*

**The Convener:** Cabinet secretary, we missed the end of that sentence. I think that you were offering to share further information with us regarding Scottish Enterprise.

**Kate Forbes:** Yes—that is right. I can share the metrics that the enterprise agencies already use.

**Colin Smyth (South Scotland) (Lab):** I will continue on the role of the agencies. The cabinet secretary has just said that there are a lot of agencies that provide support. It is five years since the enterprise and skills review. One of the issues that constantly comes up from business in evidence to this committee is the extent to which the business support landscape is still very cluttered. In fact, the Federation of Small Businesses told the committee that the system is too complex. Cabinet secretary, do you think that the enterprise and skills review, in its implementation, has done enough to declutter the landscape and give businesses a one-stop shop approach? If not, how will that be dealt with in the forthcoming economic strategy?

**Kate Forbes:** The enterprise and skills strategic board has made a very strong start in trying to streamline what is available. Covid has complicated that work quite substantially, considering the number of new schemes and initiatives that were announced over the Covid period. The challenge in Government—and, I think, the challenge to the Opposition—is to identify what needs to stop when something new starts. It is easy to call for new things and it is easy to announce and implement new things. It is much more difficult to stop things, because you know that that will never be met with support or with a commendation.

The challenge after Covid will be to reflect on what has become even more complex for

businesses to navigate, and to streamline that. Some of the Covid supports have come on stream and have then been turned off because they were no longer needed, but others are still available. There is an action there for the Government, working with the enterprise and skills strategic board, to try to streamline further, taking into account the complications that Covid has added.

**Colin Smyth:** The message from businesses is not about the number of different schemes; it is about having a one-stop shop to go to. No matter how many agencies are behind a single portal, businesses want to go to one place to get the information regularly. The issue comes up a lot.

What also comes up is the issue of awareness. The FSB told the committee that its members felt that the main economic agency, Scottish Enterprise, was not visible enough during the pandemic. In fact, the quote it gave us was:

“We were in the middle of a crisis. Scottish Enterprise was not there.”

Do you think that is a fair reflection? Why do you think the FSB is saying that?

**Kate Forbes:** At the outset, we had to mobilise support very quickly, and we mobilised support largely through local government. Local government has been a phenomenal partner when it comes to support, because it has distributed financial support in ways that it never has done before. I think it is fair to reflect on the fact that local government ended up being our primary partner in delivering support.

There is good reason for that. At the end of the day, it knows its local economies better than anybody else and it was able to reach businesses that perhaps were not on the radar of either the national or the regional enterprise agencies. At the same time, however, Scottish Enterprise was absolutely critical in mobilising other forms of support. It was absolutely critical in using its personal relationships with key businesses—particularly key anchor businesses, which often play a big role in protecting local economies. I think that Scottish Enterprise did play a critical role, even if it was not playing local government’s role of distributing support on the front line.

Colin Cook manages our relationship with the enterprise agencies. Do you want to come in on any of that, Colin?

**Colin Cook (Scottish Government):** We very much recognise the charge that the landscape of business support remains cluttered, and I think that the agencies themselves accept that. Although they have made some good progress on joint working since the original skills review—I think they have made some good progress on the way in which they present their information

through an amalgamated website, for example—all of them recognise that there is more to do.

The cabinet secretary has been very clear to me—and she has been very clear to the enterprise agencies—that the key issue will be how we deliver the 10-year economic strategy. We need to redesign the support that we offer businesses from the perspective of the businesses themselves, really putting ourselves into their shoes and understanding how they would like support to be delivered. That will have implications for the way in which our agencies work and how they work together.

We have learned a lot during Covid. There has been a lot more direct engagement by the Scottish Government, for example—we talked about some of that earlier—but each of the enterprise agencies and VisitScotland has shown up, too, and they have done some extremely strong things. That has proved, more than anything else, that the economic development landscape is an ecosystem, to use a popular phrase. It includes public sector organisations, government and private sector organisations. The challenge that we have is to make sure that we create and leverage that system as a whole over the next few years, to provide our companies and our entrepreneurs with the support that they need.

**Colin Smyth:** Thanks very much. A key part of this is making businesses aware of what is out there, not necessarily that there is a range of agencies. Small businesses are simply getting on with the day job. They have their heads down and they do not know what is available.

Listening as you have said and learning from the pandemic, what changes does the Scottish Government plan to make in order to raise awareness of what is available to businesses, particularly around equality of awareness? One of the issues that was raised with us is the need to break down the barriers to businesses being led by women, in particular. What is being done to raise that issue of equality as well as awareness of what business support is out there?

**Kate Forbes:** Three things immediately spring to mind. I do not, in any way, dispute your characterisation of the need to do that—just to make that clear—and I think the need is doubly so after Covid.

First, small businesses do not care who is behind the portal; they just need one portal that they know they can go to in order to get help. It is our business in the public sector to ensure that they get the right help—that, if they input the question, they will be guided to the right people. Over the pandemic, we trialled the find business support portal, which you will probably be familiar with. I think that it needs to be something like that.

Secondly, it is about making sure that the support is as local and as regional as possible. You and I know how successful South of Scotland Enterprise and Highlands and Islands Enterprise are in providing localised regional support. However, there are other areas in which the support is not as localised or as regionalised. I had a conversation yesterday with Scottish Enterprise about how we can break it down so that individuals know precisely who to go to in their local area for support from SE if they are not getting support from HIE or South of Scotland Enterprise.

The third thing that we need to do is rationalise all the pots of funding that are available. I think that the enterprise and skills board was trying to count up all the different pots. I would like to see all that funding condensed into one pot so that, if a business needs support for anything related to, for example, export markets, it knows where to go. Similarly, if it is trying to get help with digital, it will know where to go and will not be trying to weigh up five or 10 different pots for digital—it will know there is one place to go.

Those are my three suggestions for things that need to be done, and we will actively move to implement them. I think that that work needs to be done alongside the national strategy, though, so that our delivery is as simplified as our aims and objectives.

**Michelle Thomson (Falkirk East) (SNP):** The situation around FTs has been mentioned, and clear concern has been expressed about the changes in funding. I want to allow you to put on the record any mitigations and your planned approach, given the Scottish Government's undoubted focus on supporting business and growing the economy. Can you give any further insights on how you will mitigate the loss of FTs going forward?

**Kate Forbes:** It is difficult. I recorded my concern this time last year, in advance of the budget, because the UK spending review in 2020 gave only the financial transactions budget for this coming year. That means it is difficult to plan beyond that. The budget gave us a 66 per cent reduction in FTs, which we have had to manage through quite rigorous prioritisation. You will have seen the consequential headlines, where we have not been able to fund things because of a very limited pool of FTs.

It might be helpful to say that the majority of FT consequentials used to come from the UK Government's help-to-buy scheme, and that is expected to continue into next year. That might mean that we will continue to get consequentials from the FTs, but that will not be confirmed until 27 October this year, in the UK Government's budget. A 66 per cent reduction is quite a substantial

reduction to manage in one year. Our FTs have previously been used to fund the Scottish National Investment Bank and our housing programme, as well as some of the financial support that is provided to the enterprise agencies. It was tough to manage that substantial decline in one year, and we will have to wait and see what the UK Government does with FTs in its budget on 27 October.

**Michelle Thomson:** Given the focus that there has been on supporting capital investment in early-stage businesses, what progress has there been in managing that with Scottish Enterprise, the SNIB and so on? Where is that at the moment? Can you give some insights?

**Kate Forbes:** That remains one of our priorities. Without pre-announcing the 10-year strategy, I can say that a substantial focus of the strategy will be on Scotland as an entrepreneurial nation and on ensuring that there is the right kind of support for anybody in Scotland to start and to scale up a business so that a lot of our economic growth comes from new and emerging businesses.

10:45

If that is a focus in the 10-year economic strategy, it will be a focus for Scottish Enterprise, which continues to provide that support. Over the past few years, an infrastructure has also been built up whereby the private sector supports early-stage businesses, too. For example, Scottish EDGE and Tom Hunter's foundation are providing support to help early-stage businesses and young companies to start.

Running alongside that, the Scottish National Investment Bank has a role to play, and I hope that it will have an expanding role to play in some of those early-stage businesses, because I see the SNIB's responsibility as being to provide patient capital where it is too risky for the private sector to do that. I think that we have an obligation, in the public sector, to take on some of the risk that the private sector will not go near, but it is a difficult conversation to have in Parliament. What do we think of risk? How does the Opposition deem risk when it may lead to a loss of public sector funding? It might also lead to some of the most successful businesses that we have ever seen. Is the public sector willing to take that risk, and does Parliament think that it is right that the public sector takes that risk?

**The Convener:** I have a couple of questions about the FTs on the back of Michelle Thomson's questions. The cabinet secretary will know that Scottish Enterprise set out to the committee that it is facing a funding gap as a consequence of the drop in financial transaction returns.

Also, can you address the issue of the SNIB? The assumption was that FTs would provide the source of capital for the SNIB. Is the position on FTs to wait and see what the UK Government decides, or is an alternative plan being put in place for the SNIB? According to the forecasting that was originally done, it will be challenging if the financial transactions continue to be reduced.

**Kate Forbes:** There is a big question about FTs in this year's budget. As I said, the UK Government appears to be committed to continuing the help-to-buy scheme, which gives us an element of reassurance that FTs will continue to some degree. We also expect the UK Government to publish its multiyear spending review on 27 October, which will give us a sense of what is to come over the next three to four years.

This year, we prioritised the SNIB, and the two priorities for our funding were business support—primarily through the SNIB but also some support for Scottish Enterprise—and our housing programme. In short, if we do not fund our housing programme and the SNIB through FTs, we have to do it through capital, and capital is also in short supply—largely because we cannot borrow substantial capital—so I would much rather use FTs. The short answer is that we will continue to prioritise FTs for the SNIB.

Our commitment to capitalising the SNIB—*[Inaudible.]*—remains undiminished. How I do that is a headache for me in collaboration with the UK Government, but that commitment to ensuring that the SNIB has the funding it needs is undiminished. I hope that this year's budget proves that commitment. We have been unwavering in ensuring that the SNIB has the support it needs to do its job.

**Maggie Chapman (North East Scotland) (Green):** Good morning, cabinet secretary. I thank you and the rest of the panel for being at the meeting.

Cabinet secretary, you spoke earlier about some of the challenges in using metrics such as the number of jobs that are created to track the success of the economy or as criteria for eligibility for financial support. You also spoke about some of the constraints in our ability to build resilience because of restrictions in relation to procurement law, for example. On the programme for government's commitment on conditionality to drive the changes that we need to see in respect of net zero, fair work and wellbeing, what are the barriers to ensuring that the pace of change in those areas is fast enough? Are we doing enough to ensure that we get the outcomes that we hope conditionality will deliver?

**Kate Forbes:** Maggie Chapman has referred to our commitment to strengthen conditionality further. There are specific targets. For example, we have committed to introduce by summer 2022 a requirement on public sector grant recipients to pay at least the living wage to all employees and to provide appropriate channels for effective workers' voices, such as trade union recognition. We need to strengthen our commitment to conditionality through engagement with the unions, businesses and other stakeholders. The effectiveness of the approach relies on its proportionality and on ensuring that we can measure real benefits from it.

When we associate conditionality with outcomes, there is a real danger that businesses will not be able to deliver. For example, if we were to say—I know that you are not suggesting this—that a business can get a grant only if it commits to creating 10 new jobs in its first year, that might be the wrong metric for it, and it would probably lead to an unsuccessful outcome.

I think that paying the real living wage should be a given—that that should almost be a non-starter and a basic expectation. Members will have seen in the discussions about green ports or free ports quite recently where the real living wage has proven to be really difficult to deliver in collaboration with the UK Government. We could not come to a compromise on the notion that businesses should be paying at least the real living wage. That means that we have taken our own approach and that the UK Government will do its thing.

In short, we have a number of levers to try to deliver that, and conditionality is a key part of trying to ensure that we embed fair work across the country.

**Maggie Chapman:** I hear your commitment to consult and engage with the trade unions. Will you say a little more about that? There is a commitment to

"consult on applying conditionality to public funding",

and to consulting businesses, including discussions on a requirement for public disclosure on climate change and its impacts. What work is on-going with workers and the trade unions? Sometimes they may be closer to understanding the levers that we need to have access to and which we need to use.

**Kate Forbes:** I engage with the trade unions on that very topic. Richard Lochhead leads on the work and, obviously, he has regular dialogue with the Fair Work Convention.

On the fair work first approach, we have to think of different ways of doing things because we do not have employment powers. That means using a

lot more of the softer approaches, but we intend to launch a consultation in the coming weeks on what a leading fair work nation would look like in order to align with the aims of a just transition to a wellbeing economy. That consultation, which will invite responses from anybody who chooses to respond, will be a very wide one, and it will inform a review of our existing fair work priorities, particularly in the context of Covid's impact on the labour market.

There will be a formal consultation and simultaneous extensive engagement with trade unions on a one-to-one basis. Richard Lochhead, the First Minister and I are active participants in that work.

**Gordon MacDonald (Edinburgh Pentlands) (SNP):** Good morning, panel. I want to ask about tourism. We are aware that tourism is important for the Scottish economy and that it has been hit hard by the lack of international visitors. Earlier this year, it was announced that a new £25 million tourism recovery programme was being launched. How has that funding been utilised to support Scottish tourism?

**Kate Forbes:** It is right to say that that was a direct response to the tourism task force, on which a lot of industry leaders were represented. The £25 million was for phase 1 of the tourism recovery programme. It provided support for reskilling, retraining and marketing campaigns to try to increase footfall. It had a number of different elements that recognised that tourism and hospitality businesses more widely had been particularly hard hit.

It is clear that labour shortages have been among the biggest challenges that those businesses have faced in recent months. The industry was perhaps among the first industries to be hit by labour shortages. In conjunction with it, the Scottish Government launched a recruitment campaign that ran over the summer months, from 5 July to 18 August, with financial support from us, to try to bring more people into the industry.

We have implemented phase 1 with £25 million, but we have been working alongside the tourism task force to consider what phase 2 of the support will be.

**Gordon MacDonald:** Can you say anything about how we can have a sustainable recovery in the medium to long term in relation to phase 2?

**Kate Forbes:** I am happy to bring in Colin Cook on that, because he does a lot of work in that space. Various recovery proposals have been submitted, and we are looking at the best way to support phase 2 over the next two years. That is a longer-term approach. Phase 1 was about the immediate challenges, but phase 2 will look more

broadly. Does Colin Cook want to speak more about that?

**Colin Cook:** Yes, I would love to, cabinet secretary.

Work is going on that involves my team, VisitScotland and various representatives of the tourism industry through the Scottish tourism emergency response group to shape the phase 2 proposals. Although we are not yet in a position to commit to what those proposals will be or the amount of financial support that they can be given, we are looking to build on much of what was achieved in the first stage. International demand building, putting Scotland back on the international tourist map and supporting strategic tourism infrastructure development is a long-term exercise. There are a number of issues, such as addressing questions about how to apply digital technology to the tourism industry, how to train and encourage people into it, and how to convince people that a career in the industry has all the opportunities that those of us who work in it or with it know that it has. Those are long-term initiatives.

We are working with the tourism sector, and we are trying to shape the phase 2 recovery proposals. I hope that we will soon be able to talk more with the industry and the committee about what they mean.

**Gordon MacDonald:** Finally, it was estimated that 6.5 million people took staycations in Scotland during the summer. That made Scotland the third most popular destination in the UK. How will the Government build on that increase in domestic visitors? How will you support the sector in the 2022-23 budget, including in investment to address infrastructure pinch points?

**Kate Forbes:** It is worth celebrating those figures, because it is clear that we have significant strengths in our tourism and hospitality offering in Scotland. I represent one of the best bits of Scotland, which saw a lot of visitors over the summer months, and I can see how hard businesses have worked after a phenomenally challenging 18 months to be in a position to welcome people. We need to build on that.

There are particular pinch points. We have a commitment to invest in infrastructure alongside what we are doing to support businesses themselves, particularly in rural areas. The rural tourism infrastructure fund is among the most obvious examples of that. Rural areas that were not prepared and geared up to deal with the huge numbers that came have received financial support to put in place parking places and toilets and to expand roads, for example, to relieve congestion. We need to look at what support is needed in urban areas as well to deal with the

challenges of increased numbers, which are good for our economy.

11:00

**Colin Beattie:** The committee has recently taken evidence on the supply chain challenges. We understand that it is a complex area that comprises not just domestic but international supply chains. We have also looked at labour and skills shortages. We recognise that there are limits to what the Scottish Government can do to fix the supply chains. What policy levers does the Scottish Government have to alleviate the supply chain issues and the labour and skills shortages? How will those issues be reflected in the upcoming budget?

**Kate Forbes:** The short answer is that those issues will be reflected in the budget, because they are some of the most pressing issues that businesses face and it will potentially hamper our economic recovery if we do not resolve them.

I will go through a number of the levers that we have. There are financial levers. Where businesses need financial support or investment in supply chains, there are things that we can consider. However, our budget is severely challenged and, clearly, resolving issues in one area requires budget to be taken from another area. The financial efforts are fairly limited when it comes to resolving supply chain or labour market shortages.

With regard to the labour market, I have already referred to the need to ensure that the right people have the right skills for the right jobs. There is a short-term imperative to help those who face redundancy or who have recently left work to reskill or retrain for new jobs, and we are doing that through the national transition training fund. In the longer term, looking ahead over the next five to 10 years, it is about making sure that our higher and further education institutions are set up to deliver the skills for the future. That is a longer-term measure that will not fix the immediate issue.

The next lever that we have is procurement. We need to incentivise the use of local supply chains so that we strengthen them and are less dependent on uncertain supply chains elsewhere. However, that has limited benefit, because we cannot avoid the fact that our supply chains are exposed to international fluctuations and challenges.

The last lever that we have is engagement with the UK Government, which I take very seriously. I recognise my responsibility to engage with the Chancellor of the Exchequer and with the new Chief Secretary to the Treasury. As you can imagine, over the past two weeks, I have had conversations and correspondence with the

business secretary on the impact of rising energy costs, alongside Michael Matheson, and when there was a crisis or potential challenge in relation to CO<sub>2</sub>. We have been engaging with the UK Government, exchanging data on what is happening in Scotland and trying to help the UK Government to come to a resolution on the issues.

The biggest challenge for us in engaging with the UK Government is in trying to put in place solutions to the labour market shortage. The issues have been emerging since June or July. I had early conversations about labour market shortages when they were being raised by the tourism and hospitality industries back in June, so a solution has been a long time coming. The most recent announcement on a visa option for haulage is part of the solution, but most people would agree that it is too little, too late, and that haulage is not the only industry that is struggling with labour shortages.

My official Helena Gray is working alongside business to develop a 10-point plan for how we respond to the issues and where we have levers. I am sure that she would be happy to come in if the convener wishes, although I am conscious that you perhaps want to move on to other issues.

**The Convener:** Mr Beattie, would you like to hear from Ms Gray?

**Colin Beattie:** I think that that would be useful.

**The Convener:** Please come in, Ms Gray.

**Helena Gray (Scottish Government):** To reiterate what the cabinet secretary has said, we are working collaboratively with businesses, industry representatives and others to understand the challenges that they face and to develop a shared action plan that focuses on the levers that we have available to us and on where action may be required on levers that are reserved to others.

**Colin Beattie:** Cabinet secretary, you said that you have been in close contact with the UK Government about supply chains in particular. How fruitful or useful have those discussions been? Is there a result that will benefit us?

**Kate Forbes:** In some areas, we have seen a swift resolution, even if it is a temporary one. Last week, there were a number of discussions on the challenges with CO<sub>2</sub>, which, to give credit where it is due, have been resolved temporarily so that there has not been a reduction in our CO<sub>2</sub> supply. However, there are still live issues with energy costs, which I think will continue to have an impact on prices, supplies and the ability to deliver to customers. Those issues have not been ultimately resolved.

We have seen a swift resolution of some issues. They are challenging issues, so I do not want to be overly critical. However, I am much more

critical on labour market shortages, because they are resolvable. They are within the gift of the UK Government but, too often, an ideological position rather than anything else has prevented a swift resolution. Last week, there was an emotive comment by a Polish lorry driver on the radio, when he said that European citizens have felt unwelcome for a number of years and that you cannot just turn on the taps now and assume that they will come flooding back. We are seeing shortages right across the board, including in care homes, hospitality, tourism and manufacturing. Those have been exacerbated by the pandemic, but there is no doubt—I think that everybody is pretty much agreed about this—that the shortages have been significantly exacerbated by an immigration policy that has reduced the number of EU citizens working in this country.

**Colin Beattie:** Convener, is there time for a further question?

**The Convener:** Yes—if it is brief.

**Colin Beattie:** Cabinet secretary, will you update us on the measures to mitigate the Covid-19 labour market impact, particularly for young people?

**Kate Forbes:** There are a number of measures. On the skills side, the young persons guarantee is continuing. Led by Sandy Begbie, we have been working to implement the guarantee to ensure that young people have access to jobs and to upskilling or retraining. That is one of our primary economic levers in trying to help young people with the impact of the pandemic.

**Alexander Burnett (Aberdeenshire West) (Con):** The north lot of the reaching 100 per cent programme is finally available for constituents to look at, and it is disappointing that the initial feedback has not been positive. There are still errors, which occurred with the previous lots, such as people being told that they are connected when they are not. Many people are saying that the dates that they have been given, such as 2026, are not particularly satisfactory and that the contributions through the voucher schemes are insufficient, especially when some people have been quoted costs of near £100,000 for a group of houses to be connected. That means that people will be unable to develop businesses and in some cases are considering moving away.

How many will be connected via the north lot? What is the review process for the initial roll-out that has been announced? Most important, where should we direct constituents to go to ask their questions and point out errors?

**Kate Forbes:** Telecommunications has always been a reserved matter, so what we are doing is over and above what the UK Government is doing. The R100 programme is getting infrastructure into

non-commercial areas at a time when the UK Government's gigabit programme, which tries to deliver a programme similar to R100, is still at its planning stage. We are already funding the full extension of full fibre in some of the hardest-to-reach communities anywhere in the UK. We are trying to work with the UK Government to secure a fair share of the £1.2 billion that it has announced through project gigabit to push that coverage even further. Where we can go further, we absolutely will do so.

To date, 1,592 connections have been delivered by the R100 central contract. There are 3,052 currently in build and 1,595 connections to be delivered by the R100 south contract. You specifically referred to the north contract. The build work has commenced as part of the R100 north contract. I am happy to provide the member with a breakdown of precisely what is intended for the north lot, the central lot and the south lot, although members should understand that, if we can increase the numbers, we will do so. I am in regular conversation with Openreach to see how much further we can push the numbers.

**Alexander Burnett:** You answered the first part of my question, which was about numbers. I am grateful for that, but what about the review process for the roll-out? Most importantly, given that R100 is within the Scottish Government's remit, where do we direct constituents with their queries and errors?

**Kate Forbes:** On the latter point, as of a fortnight or so ago, there is provision online with the details of the R100 north lot so that households can understand when and how they will be connected. I am happy to share the link with the committee. The contact details might already have been shared with MSPs, because my team regularly informs members of progress. I recommend that, for feedback, you use the contact details that are already being used to inform MSPs of progress.

I assume that your reference to a review means a review of the overall contract rather than of individuals' positions. That process is almost iterative and on-going. I have regular conversations with Openreach, which we continue to push to go as far as possible where there has been public sector spend and where it might be able to go further on commercial links. I am also in conversation with the UK Government about getting a share of the £1.2 billion that I referred to. In that sense, the review is on-going. We have a baseline, which is in the contract but, if I can push it further, I absolutely will do so.

This is probably not much consolation, but I assure the member that my constituents are as agitated and exercised as his probably are about whether they will get broadband. I hear about the



issue regularly in surgeries, and I heard about it in the recent election campaign.

**Alexander Burnett:** I have no doubt that the cabinet secretary hears about it.

Moving on from poor broadband, we have heard this week about poor rural healthcare provision, we have heard previously about the shortfall in the spending of the rural housing fund, and we have issues with rural public transport. I know that the cabinet secretary is well aware of all those issues from her constituency.

In the papers today, we see that one of the largest sums that the Scottish National Investment Bank has invested is the £50 million that has been invested in a forestry fund, which is nearly 10 times the bank's next largest investment. I note my entry regarding forestry in the register of interests. Financing fund managers that are speculating on carbon prices, thereby driving up rural land prices and in some cases creating a modern version of the clearances, seems counterproductive to supporting rural economies. When we see measures such as those, which are counterproductive, where is the understanding of the rural economy and where are the joined-up solutions?

**Kate Forbes:** That is an important question. Whether we are looking at our economic strategy for 10 years down the line or at next week and at businesses that are struggling, we will not have succeeded if not all of Scotland can benefit and contribute. I strongly dispute the notion that we have succeeded if some of our urban centres are contributing and driving economic growth and our numbers nationally look good. That is the UK model, which depends on London and the south-east to fire the cylinders. We need to do it differently in Scotland.

11:15

At the risk of alienating some of the urban MSPs here, I will say that rural areas are often the most entrepreneurial. They provide great opportunities when it comes to pioneering solutions. You will have seen that in our commitment to helping some of our islands become carbon neutral before anywhere else. There is an opportunity to do that, but it will all be just rhetoric and we will not achieve it unless we build the infrastructure and ensure that the measures in the "Skills Action Plan for Rural Scotland" are in place with financial support.

In short, first, it is important that we are reskilling, upskilling and providing opportunities to communities in rural Scotland, and the skills action plan does that. Secondly, it is important to make sure that there are opportunities for rural entrepreneurs, and we have the rural entrepreneur

fund for that. Thirdly, it is important that we invest in infrastructure and, in that regard, we have the infrastructure investment plan, which looks at investment over the long term—the next few decades—in rural hospitals, schools and roads. Together, those provide opportunities for rural Scotland.

On the Scottish National Investment Bank, the member will know that, for very good reason, it is operationally independent of ministers and therefore takes its own decisions. The less political involvement there is in the bank's decisions, the better.

**Jamie Halcro Johnston:** Cabinet secretary, you talked about rural infrastructure, roads and the like. I am sure you are aware that one of the issues for an island community like mine is the need for investment in new ferries within our island communities, such as in the northern isles, but also on the west coast. What hope can you give to island communities that in the next budget and looking forward there will be some serious investment in the ferry infrastructure?

**Kate Forbes:** I will make three points. The first is that I am determined that the two vessels that are currently being constructed will be completed. There is a lot of discussion about the future of the yard but, if for just a moment I can separate the yard from the vessels, those vessels must be completed. That is one of the most important issues on my agenda.

Secondly, we are making progress on Caledonian Maritime Assets Limited's procurement of new vessels with the announcement of the most recent two vessels. That pipeline, therefore, is starting.

My third point is that over £500 million has been committed to procuring additional vessels, particularly around the small vessels replacement programme, to bolster and boost the fleet. I know how challenging it is right now for island communities. You and I both represent some of those island communities; this, too, is an issue that I see regularly in my inbox.

Those are my three points reflecting on the fact that the ferries issue absolutely and urgently needs to be resolved.

**The Convener:** Thank you. Before we close, I will return to the issue of the Scottish National Investment Bank. You have given a firm commitment this morning to finance the SNIB and have also just referred to the bank's independence. Has the Government set a target rate of return for the bank?

You will be aware that a number of bonus or incentive payments have been made in the initial months of the bank's establishment. Previously,

the Government said that there would be no annual financial target-based bonuses within the bank and there would be medium to long-term incentive schemes. Do you have a view on the recent bonuses and the payments that have been made in the short lifetime of the bank?

**Kate Forbes:** Thank you for that question. I agree that the bank needs to be operationally independent.

On the two specific questions, as agreed during the passage of the bill, setting an overall target rate of return too soon could risk the target not being met and I think it is important that we recognise the bank's role when it comes to long-term capital investment. I am, however, keeping that position under review. A meaningful target will be agreed or set once there is a sufficient level of activity on which we can report. I am happy to keep the committee updated on that point.

The bank will obviously seek a commercial return on every investment that it makes. The actual amount will vary depending on the risks and the types of investments. You have already seen, in the last year or so, the varying nature of the investments that have been made. The bank is required to deliver social, economic and environmental returns, as well as financial returns, from the investments that it makes and that needs to be weighed up.

On the more specific point about the bank's pay framework, clearly the bank's board is ultimately responsible for the assessment criteria, appraisal and payments made under the bank's pay framework. It operates within our public sector pay policy, with exceptions and adaptations as approved by ministers in June last year. The framework must reflect the fact that the bank operates in the financial services sector but is also a public body and it is modelled to align with the approaches taken in other UK development banks. There will be no annual financial target-based bonuses within the bank. The chief executive and other staff will instead have access to long-term incentive schemes linked to the delivery of missions and objective-based targets. That ensures that an element of pay is linked to the bank achieving its public service mission without the creation of a bonus culture. That remains my position.

**The Convener:** Thank you very much, cabinet secretary. I thank you and your officials for your attendance. We hope to see you back in the Parliament soon.

**Kate Forbes:** Thank you.

**The Convener:** We will take a short break before the next panel.

11:21

*Meeting suspended.*

11:30

*On resuming—*

## Professional Qualifications Bill

**The Convener:** Under agenda item 3 we will consider a legislative consent memorandum on the Professional Qualifications Bill. This United Kingdom Government bill was introduced in the House of Lords on 12 May and changes the law on devolved matters. I welcome Ivan McKee, Minister for Business, Trade, Tourism and Enterprise. He is joined by David MacLennan, who is a solicitor, and Richard Shearer, head of services, trade policy, both at the Scottish Government. I invite the minister to make a brief statement on the Scottish Government's position and then we will move to questions

**Ivan McKee (Minister for Business, Trade, Tourism and Enterprise):** Thank you very much, convener and good morning, committee. It is great to be here. I thank the committee for inviting me to discuss the important matter of legislative consent.

The principle of the recognition of professional qualifications is to allow suitably qualified people the chance to work in or trade with other countries. For Scotland, this means getting access to the doctors, vets, nurses and engineers that we need here, who have skills gained in other countries. It also enables our professionals to take up skills-enhancing opportunities abroad, or to export their services to other countries. To put this in context, I point out that doctors, nurses and vets who have qualified in other countries rely on mutual recognition of professional qualifications to be able to work here.

The latest data shows that international exports of professional scientific and technical activities were worth £3.4 billion in 2018, which is 20 per cent of total services and 10 per cent of total international exports. Within the EU, there is a formal system for the recognition of qualifications. That was lost when the UK left the EU. As a responsible Government, the Scottish Government has worked with the UK Government and the Scottish Parliament to amend legislation on mutual recognition of professional skills that was brought into UK law as a result of Brexit.

The bill covers a number of important issues for regulators now that the UK is no longer in the EU. It seeks to provide all professional regulators with the power to enter into agreements with counterparts abroad, as some do not have that power. There are also powers for the UK and devolved ministers to make regulations covering professions over which they can legislate. We know that a variety of UK-wide and devolved regulators have expressed concerns about the terms of the bill as it relates to professional

standards; there is a risk that UK ministers might trade away existing high standards to secure free trade agreements. I understand that the Department for Business, Energy and Industrial Strategy has continued to engage with regulators across the UK and I hope that the department will seek to allay those fears about amendments to the bill.

The committee will know that the Scottish ministers felt that they could not recommend granting consent for the bill as it stands. The bill as drafted confers concurrent powers in devolved areas to both UK and Scottish ministers, but without a requirement to seek consent before exercising those powers. In addition, UK ministers could amend or disapply regulations that were legitimately made here and supported by this Parliament.

The issues around consent are relevant to a number of other UK Government bills, so I hope that the UK Government will take proper account of our legitimate concerns in this area. The Scottish ministers have asked UK ministers to amend the bill to include a requirement for consent before acting in devolved areas. If, as we were told, UK ministers do not intend to act without agreement, there is no problem that I can see in amending the bill. I am keen to work constructively with BEIS for as long as Scotland is part of the UK and where there are shared interests, and that includes this bill on mutual recognition of professional qualifications. Thank you.

**The Convener:** Thank you, minister. As this is the first time that we have had you present in person before the committee, we welcome your joining us here this morning.

You have outlined the reasons why the Government is not prepared to lodge a consent motion at the moment. If an amendment to the bill were to be accepted and the issue were resolved, would you be satisfied with the proposals in the bill? Would it resolve the issues that we have with recognising qualifications?

**Ivan McKee:** Yes, I think so. From our perspective, the main issue is the impingement on devolved responsibilities. Issues have been raised by regulators, who also have concerns, but the main issue for us is the devolved aspects. We recognise the asks from the regulators and we are supportive of many of them. We hope that the UK Government will also move forward on those asks, with appropriate amendments.

**Maggie Chapman:** Thank you, minister, for outlining the Government's position. You mentioned engagement with regulators. Are you aware of any concerns that either the regulators or other stakeholders in Scotland have about the bill's provisions?

**Ivan McKee:** They will speak for themselves, but I understand that their concerns are largely about the potential downgrading of standards in pursuit of international trade deals—clearly, that is something to be concerned about—and the UK Government being in a position to make changes that the regulators are not comfortable with.

**Jamie Halcro Johnston:** What on-going consultation or discussions are there with the UK Government at ministerial or official level?

**Ivan McKee:** There is regular on-going engagement at official level. I have spoken with and written to Gerry Grimstone, the relevant UK Government minister about the issue. We are hopeful there will be movement. There is regular discussion about the issue, as there is on many other areas.

**Jamie Halcro Johnston:** Are you quite positive about the potential for the bill to be amended?

**Ivan McKee:** I would like to think so, but it will come down to the UK Government reflecting on the situation. There have been issues of this kind, with other bills in which the UK Government has sought to impinge on devolved matters, that have not concluded in the way we would have liked. However, in this case, I am hopeful that the UK Government will recognise the importance of not impinging on devolved areas and will amend the bill accordingly.

**Jamie Halcro Johnston:** You mentioned stakeholders. Are you keeping them informed of your discussions, or are you relying on them having their own discussions with the UK Government about potential amendments?

**Ivan McKee:** They will be having their own separate discussions, but our officials are also engaging regularly with the regulators to understand their concerns about the professional issues that I have mentioned and how the bill impinges on devolved matters.

**The Convener:** The minister has indicated where he would like the UK Government to make amendments. You might be aware that the Delegated Powers and Law Reform Committee argued that

“a statutory requirement to consult the affected regulator(s)”

on international treaties should be introduced. Is that something that the Scottish Government supports and will be asking the UK Government to look at?

**Ivan McKee:** Yes. Our ask is that the requirement to seek consent in devolved matters be included in the bill.

On the broader issue of international trade, there have been on-going discussions with the UK Government over a lengthy period. We

published—two years ago, I think—our perspective on how Scotland, our Government, our Parliament and the other devolved Administrations should be involved in all aspects and at all stages of any potential international trade agreement. That is a long-standing position of ours, which applies equally to professional qualifications.

**Colin Beattie:** How does the Scottish Government envisage that the provisions of the bill would interplay with the relevant provisions in the United Kingdom Internal Market Act 2020?

**Ivan McKee:** The 2020 act gives the UK Government the ability to impinge on devolved areas, which is something that we are deeply unhappy about. As we know, power devolved is power retained, so the UK Government can effectively do as it wishes in that regard. The internal market legislation allows the UK Government to do that, but that does not mean that that is a wise thing to do, or that it is in the interests of Scotland for it to do so.

**Michelle Thomson:** Following on from that point, have you had any indications of any possible or reasonable rationale as to why the UK Government would not accept the amendment, given your stated concerns about standards? Is there anything that you can share in that regard? If the UK Government is saying that there is no intention of lowering standards, why not simply accept the amendment? Can you clarify the situation?

**Ivan McKee:** Your analysis is correct. Our position is that the UK Government, if it has no desire to impinge on those areas, should make that clear by stating that in bill. It is difficult to see why it would not do so. As I said, we are continuing with our discussions, and we hope that it will change its position to reflect that logical position as you have outlined it.

**Fiona Hyslop:** The Scottish Parliament’s Health and Social Care Committee has concerns about live issues to do with recruitment, and shortages of skills and labour, particularly in health and social care. Do you agree that this is not just a dry academic issue, but a very real issue that concerns the Scottish Government’s ability to recruit and retain highly skilled workers at the higher standards of the Scottish regulators?

**Ivan McKee:** Yes. That is an important point. On the surface, MRPQ does not sound like the most exciting of subjects, but in reality, as I have indicated, on so many levels, that represents an increasing proportion of our trade. MRPQ affects the ability of Scottish professionals to work internationally, which is hugely important for their aspirations and career development, for business, and for, as you rightly said, the movement of

professionally trained individuals to support our health and social care sector and a range of other sectors to which that applies. It directly impinges on our ability to respond to situations that arise. For a devolved Government with the responsibility for doing so, it is important that the power remains within the devolved remit.

**The Convener:** Finally, the Delegated Powers and Law Reform Committee talked about clause 3 of the bill compelling devolved regulators to charge fees. The approach normally tends to be that you try to reduce barriers to people coming to work in and support our economy and public services. Do you have concerns? Have you had any discussions with devolved regulators about the proposal to charge fees? Also, does the clause include the level at which the fee would be set, or would we have flexibility in setting the fee?

**Ivan McKee:** I am not aware of the specifics of fee levels. I will defer to one of the officials, who might have more information about the detail and any conversations on the specifics of it they might have had with the devolved regulators. I do not know who is best to come in on that.

**The Convener:** Richard Shearer, would you like to come in?

**Richard Shearer (Scottish Government):** Yes. Thank you. Our understanding on the clause about fees is that it is not clear as to whether there will be an interaction with regulators in determining the charging of fees. Some regulators have noted that the bill might introduce costs that they do not currently have and they question how they would offset those costs.

The imposition of a fixed fee, or the removal of the ability to charge fees, is potentially concerning. We expect that, in the first instance, regulators should be able to make autonomous decisions about charging fees but that the fees should be reasonable and reflect the cost of the service that is being provided.

**Ivan McKee:** I will follow up on that. You are right, convener, that, all else being equal, we are keen to remove barriers to trade where they exist.

**The Convener:** I thank the minister and the officials for attending this morning. I now bring this evidence session to a close.

11:43

*Meeting continued in private until 12:14.*



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