OFFICIAL REPORT
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Finance and Public Administration Committee

Tuesday 26 September 2023

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 26 September 2023

CONTENTS

FINANCE AND PUBLIC ADMINISTRATION COMMITTEE
24th Meeting 2023, Session 6

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*Michael Marra (North East Scotland) (Lab)

COMMITTEE MEMBERS

*Ross Greer (West Scotland) (Green)
*Jamie Halcro Johnston (Highlands and Islands) (Con)
*John Mason (Glasgow Shettleston) (SNP)
*Liz Smith (Mid Scotland and Fife) (Con)
*Michelle Thomson (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Sandy Begbie CBE (Scottish Financial Enterprise)
Donna Bell (Scottish Government)
Fiona Bennett (Scottish Government)
Rachel Cook (Federation of Small Businesses Scotland)
Louise Maclean (Scottish Hospitality Group)
Maree Todd (Minister for Social Care, Mental Wellbeing and Sport)

CLERK TO THE COMMITTEE

Joanne McNaughton

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Finance and Public Administration Committee

Tuesday 26 September 2023

[The Convener opened the meeting at 09:29]

National Care Service (Scotland) Bill: Financial Memorandum

The Convener (Kenneth Gibson): Good morning, and welcome to the 24th meeting in 2023 of the Finance and Public Administration Committee. Under our first agenda item, we will take evidence from the Minister for Social Care, Mental Wellbeing and Sport on the financial memorandum for the National Care Service (Scotland) Bill. The minister is joined by Scottish Government officials Donna Bell, the director of social care and national care service development, and Fiona Bennett, the interim deputy director for national health service, integration and social care finance. I welcome the witnesses to the meeting.

I invite the minister to make a short opening statement.

The Minister for Social Care, Mental Wellbeing and Sport (Maree Todd): Thank you for inviting me to discuss spending on the national care service programme. The Government remains committed to delivering a national care service to improve the quality and consistency of community health and social care support across Scotland. Through our summer co-design activities, we have heard from hundreds of people with experience of accessing support or delivering it, and it is clearer than ever that the system needs to change if we are to deliver the services that people need.

That said, we are in a different situation from the one that we were in when the National Care Service (Scotland) Bill was introduced in June 2022. The timings for the bill have changed. We originally expected the bill's passage to be completed by now. The delay has given us additional time to have deeper discussions with key partners and stakeholders, and to advance the co-design activities. However, it has obviously affected the profiling of expenditure, with development activities taking place over a longer time rather than our moving to implementation.

The fiscal circumstances are also different from those in June 2022. There is increased pressure to find different ways of working to make the best use of the available public funds. During its initial stages, the NCS programme involved a small number of consultancy projects that provided research and advice, but that work has significantly reduced in the current year, and we are focusing on providing the skills that are required through our own staff.

In addition to the internal spend on developing the national care service, the Government is increasing spend on front-line social care. More than £1.7 billion has been provided for social care and integration in 2023-24, and we are committed to increasing spend on social care by at least 25 per cent by the end of this parliamentary session—an increase of more than £840 million. So far, spend has increased by £800 million since 2021-22, so we are well ahead of that target.

However, simply spending more will not deliver. In order to make the improvements that people are calling for in relation to the quality of social care support and giving people choice and control over the support that they receive, we need to change the system. I believe that the new approach that we are developing, with greater national oversight and strengthened integration at the local level, is how we will achieve that.

The Convener: Thank you for your opening statement, which is very helpful. It is interesting to see where we are compared with where we were less than a year ago. It is now broadly accepted that the financial memorandum that was produced was simply not up to the job, so it is good that the Scottish Government has had a complete rethink in that regard.

It is important that we are able to effectively scrutinise the financial memorandum. On 9 May, you said that you intend to give us four weeks before the stage 1 debate to scrutinise the updated financial memorandum. Is that still the Government's position?

Maree Todd: Yes, it is.

The Convener: Thank you. It is important to get that clarification on the record.

One of the things that concerns me—I am sure that other members will raise this issue—is that the costs that have been provided, such as those for 2021-22, 2022-23 and the current year, do not give us much more than the top-line costs. It would be useful to dig down into the costs, so I will do a wee bit of digging and I am sure that colleagues will do more of that as the meeting progresses.

In your opening statement, you talked about the need to look again at the profiling of expenditure. The annex in our papers shows the actual costs after revision, which are obviously the most important ones. In 2021-22, £1.387 million was spent on staff. In the following year, the figure increased quite dramatically to £9.8 million. One would anticipate that, because a lot more work was done to flesh out the bill. However, in the first quarter of the current financial year, the figure seems to have fallen back quite significantly to £923,000, which is only about a third of the quarterly spend in the previous financial year. Can you explain why there has been such a dramatic change in those figures?

Maree Todd: A lot of the staff costs that are attributed to the programme relate to training and travel, and there will have been more training at the start of the transition than there will be as we progress. Fiona Bennett may want to give a bit more detail on that. Another factor probably relates to outturn and reconciliation.

Fiona Bennett (Scottish Government): There are various reasons, and we are happy to give a fuller breakdown in writing afterwards. Part of it is the reduced use of contractors. Wherever possible, we have brought in permanent staff to fill specific roles in the core team as civil servants, which costs less than using external contractors. We have been keen to upskill permanent staff, which also has an impact on cost. Again, we are happy to provide more details on the breakdown of staff costs in specific teams.

The Convener: I know that consultancy figures are around £246,000 less than anticipated, but it still seems an awful lot of money for training people on a bill when we do not know how it will look. It is clear in the papers that we have received that a lot of the co-design work continues to take place. What was the staff training on?

Maree Todd: Co-design is a new method of developing legislation. We have used it before in the Scottish Parliament and the Scottish Government, but some of the training costs will have been on co-design methods to ensure that people were aware of how to engage with lived experience and how to make sure that that lived experience made its way to the heart of the legislation.

Donna Bell can give you a bit more detail on that.

Donna Bell (Scottish Government): In addition to the support for the co-design process, the national care service programme is quite big and complex. We have ensured that staff have a good understanding of programme management and scheduling. There has been training on financial management and various other aspects.

Another thing to add on the costs for period 1 is that adjustments have been made to what is included in the programme and what is not. Once we have that breakdown, which we will very happily provide, we can give you an understanding of changes to what has been included in the programme and what has not. I am sure that Ms Todd would be happy to expand on this, but it is difficult to differentiate between the work that is going on to improve social care and integration right now, what improvements are needed to create the right conditions for the national care service and what is specifically attributed to the national care service programme, because that is all very connected. There has been some adjustment to what is included in the programme costs and what is not.

The Convener: You will understand that that makes scrutiny quite difficult. Minister, in your letter of 9 May, you said:

> "It is not possible to separate costs relating to the provisions of the Bill and those which result from the wider NCS programme."

That makes it very difficult to assess whether public money is being spent effectively. Can you give us a wee bit more information on that? One reason that the financial memorandum caused such alarm to the committee was because we were not getting those breakdowns and because of the scale of the money involved.

Maree Todd: With the exception of a very small dedicated bill management team, the majority of officials working on the national care service are involved in teams that combine policy development, co-design and implementation across a range of areas. Those activities will inform the development of the bill and the more detailed development of the national care service, which will be set out in secondary legislation, guidance and practice. They will also inform many areas that feed into improvements of the current service.

You have heard me say many times that we do not need to wait for the bill or primary legislation but that we can make improvements in the area now, and we seek the areas that we can improve without legislation on a regular basis. Officials continue to review priorities at all times in line with the current fiscal position in order to focus on improving services for people who access social care support. I am more than happy to furnish you with as much detail as we possibly can. I want you to be able to scrutinise the bill. We are not trying to hide anything from you, and we are keen to use your scrutiny to improve what we do.

The Convener: I will go into the figures in a minute or two, just before I let colleagues in, but I note that you said in your letter:

> "An initial consensus proposal between the Scottish Government and Cosla (on behalf of local government) has been formed on a partnership approach that will provide for shared legal accountability. This will improve the experience of people accessing services by introducing a new structure of national oversight to drive consistency of outcomes, whilst maximising the benefits of a reformed local service delivery."

You have also talked about the formation of a national board to provide

"national oversight and governance of social work, social care support and community health".

How will that body actually work? When is it likely to be up and running, so to speak?

Maree Todd: The final details are still being decided, but there is an agreement involving ourselves in the Scottish Government, the Convention of Scottish Local Authorities and the national health service that there will be shared accountability. I would envisage a board involving others, including, for example, those with lived experience, staff-side representation and the national social work agency, and it would oversee and scrutinise the national care service and what it delivered. An important point is that I would expect the board to be built with some teeth so that it could take action in the event of service delivery failure and ensure the success of that delivery.

We have not quite finalised the negotiations on the national care board, but I think that it will be an absolutely crucial part of oversight. I find it frustrating that, at the moment, I am regularly held to account for the delivery of social care across the country, even though I have no legal responsibility for it and the matter sits entirely with local government; I have no powers to change what goes on. As a result, the proposal aligns with Derek Feeley's vision in his independent review of adult social care and with what the country told us in our consultation, which was that people want national Government to have some say in and oversight of social care.

The Convener: One of the figures that draws the eye is expenditure on engagement. It was envisaged in 2022-23 that the cost would be £475,000, but it turned out to be £1,026,000. The cost has also declined to a very small £7,000 in the most recent quarter of the current financial year. Why did the Scottish Government get the figures for engagement so out of kilter, and why has there been such a decline in the costs? I would have thought that with co-design there would have been more rather than less engagement. What is the Scottish Government's thinking in that respect?

Maree Todd: I am not sure who would be most appropriate to answer that question—I think that it might be Fiona Bennett—but I think that it comes down to the spend being reprofiled. When we introduced the bill last year, we expected that it would have completed its passage through Parliament by now and that we would be in the implementation phase of the legislation. That has not occurred, which is why the predictions for the spend at each stage have turned out not to be the case. We have done things at a very different pace and have taken the opportunity to develop expertise in Government so that we get the best value for money as we move along.

Fiona, do you want to say more about that?

Fiona Bennett: Another factor is the timing of grant funding. Part of the engagement line includes grant funding for some disabled people's organisations in order to support engagement—I am thinking, for example, of the people-led policy panel. Part of the issue is about timing with regard to recognising that grant expenditure as the process is worked through and as the money is paid out to those who receive it. We can update that figure each month as the year goes on, but the grant expenditure is part of the reason for the change in profile.

The Convener: It would have been useful to have more detail on that.

I will let in colleagues in just a second, but minister, do you agree that the bill now seems to be about evolution rather than revolution? Has the big bang that we saw last year and which hit the rocks of a financial memorandum that just did not add up been transformed? Is the Government now looking at putting in place something radically different than what it was going to put in place a year ago?

Maree Todd: I agree that it is less of a big bang, but I would also say that it is still bold and transformational. People have been very clear that they want change, particularly those people with lived experience who have accessed social care, and those who work in social care who we have engaged with over the course of the summer. They want the system to change because the status quo is not good enough. I think that what we deliver will be bold and transformative, but we will take a more phased approach. We are very keen to take people with us on the journey of transition.

09:45

When I became minister, just six months or so ago, we were in a very different place. It was not just the financial memorandum that was causing people concern—there was also lots of opposition to the bill. We have worked really hard with our partners over the course of the summer to ensure that we all agree the direction that we are pulling in. We are now all focused on delivering that transformative change that the people of Scotland are telling us very clearly that they want.

The Convener: Are you saying that the objective remains the same but that the path to it has changed?

Maree Todd: Yes. The pace has also changed.

The Convener: Indeed.

Michelle Thomson (Falkirk East) (SNP): Before I ask my main questions, I want to go back to the earlier question about training. I think that Donna Bell said that some programme management training, particularly around financial management and scheduling, was involved, but from my experience as a programme manager many years ago, I know that those are the fundamentals. You cannot deliver anything without a basic knowledge of scheduling and financial matters.

Therefore, I have to say that that worried me a wee bit. What on earth made you think before that you could deliver anything without having that basic skill set in place first of all?

Donna Bell: I completely understand—I would be worried, too, if that were the case. However, we have some very experienced people with many years' experience in programme management. It is really important that everyone approaches the programme in the same way and that we all have a common understanding of what is required.

We have new people who are getting involved in policy development as well as people who have a background in it; the point that I was making was about upskilling everyone, instead of there being a kind of greenfield site. There is significant experience within the core group of people working on the programme.

Michelle Thomson: I am pleased to hear that, but it makes me wonder what on earth was happening before if that was not in place to tackle a bill of such scale. Those are fundamental skills. I have often seen situations where the focus has been on policy but there has not been the associated rigour in respect of delivery. Minister, are you now confident that that skill set is in place across the board, given how fundamental it is to delivery?

Maree Todd: Absolutely.

Michelle Thomson: Okay.

A concern raised about the previous financial memorandum was the ability to scrutinise detail, given that it is a framework bill. How will the new approach of evolution rather than revolution, as set out by the convener, alleviate and mitigate them? What new risks will it introduce?

Maree Todd: Gosh. For a start, we will be more able to update everyone as we go along, as there will be better communication and information flow. We are developing our approach to the bill in response to the information that we have received, and we are taking lived experience on board, too. There will also be more time to ensure that we inform those who need to know of the changes and the evolution that are occurring.

There are always risks with a bill of this complexity, and risks remain. However, I am absolutely confident that we will deliver and that we have the right people with the right skill set. We are now motoring together to deliver something that will be transformative for the people of Scotland, and it is really exciting to be involved in it.

Michelle Thomson: Following on from that, I recall that one of our previous concerns about the use of secondary legislation was that such an approach lacked scrutiny of what could be significant spend over the long term. Will the new approach of evolution rather than revolution result in more secondary legislation, which might mean less on-going oversight of spend by the Finance and Public Administration Committee? Is that not a logical extension of the approach?

Maree Todd: We have talked a little bit about the oversight of secondary legislation. Under the rules of the Parliament and the normal procedure, there is a minimum level of scrutiny for secondary legislation, but I would be very comfortable with enhancing that scrutiny to ensure that the Parliament is comfortable with what we are doing. We welcome your scrutiny—we want to work with you to make this the best bill possible, because we want to deliver improvement for the people of Scotland. We can definitely ensure that you are comfortable with the level of scrutiny that you will have across the board on all the legislation.

One of the key pieces of work that the committee will be interested in is the business case. It is a dynamic document and, as you will expect, we regularly update it. We will ensure that we keep you apprised of how the business case is looking.

Michelle Thomson: I would very much welcome further opportunities for us to capture baseline costs as near up front as possible, instead of seeing them slip into secondary legislation. Please feel free to write to the committee after the meeting with any additional ideas, because I suspect that this will be a concern for all members.

Liz Smith (Mid Scotland and Fife) (Con): Minister, you have talked about co-design, which your predecessor, Kevin Stewart, was also very keen on when he attended the committee on 8 November last year. The principles of co-design sound sensible, but the trouble is that it is an on-going process, as you have reiterated this morning. Surely, if it is on-going, that makes it very difficult to forecast in detail what the costs will be at the end of the process.

Maree Todd: What I have been trying to describe is a dynamic process in which we take on board the co-design and then come back to the committee with more information. The business case is iterative, so we will have lots of opportunities for you to scrutinise and examine what is going on. The use of co-design in developing the legislation is fundamental to the type of change that we are delivering. As I say very regularly to people, if we have lived experience at the heart of our policy and legislation, we are much more likely to get them right. The challenge, though, always lies in implementation, so we also have a built-in mechanism for holding our feet to the fire in that respect to ensure that we not only deliver our ambitious policy and legislation but implement them appropriately on the ground.

What I am trying to say is that co-design is a core part of the national care service. I would expect that, once we have delivered it, it will continue to evolve, much like the NHS has. It will not be fixed in stone, just as the NHS was not fixed in stone when it was introduced in 1948. Having co-design at the heart of the development and at the heart of the service itself means that the voice of lived experience will continue to be involved in its evolution, even after we deliver the legislation. However, I agree that the approach makes it more difficult for you to scrutinise costs.

Liz Smith: That is the point for this committee. I absolutely understand why co-design could be beneficial—particularly from the point of view of getting the input of many who feel that the existing system is not satisfactory—and I understood it when Kevin Stewart spoke to us, too. My concern is that the process of engagement is still going on, and we know from our previous consideration that, although many on the front line of the service were concerned about the change, lots of others involved in the delivery of the service were also quite critical—in fact, very critical, in a few cases—of what the Scottish Government proposed.

My point is that it is a bit like putting the cart before the horse. If the co-design continues—for good reasons—should we not finish that process before we come back with the detail of the bill and, therefore, the forecast of the costs? Would that not be an easier way of doing it?

Maree Todd: That might be an easier way of doing it, but we can deliver both. We can have co-design at the heart of our development of legislation and ensure that this committee and others are comfortable with the financial scrutiny.

Liz Smith: How do you propose to put in front of the committee what the true costs will be? We all accept that no financial memorandum can be 100 per cent accurate, but it will have to be much more accurate than the one with which we were presented before. I do not see how we will be able to get to that situation when engagement is on-going that might produce many more suggestions about how to improve the bill. Do you accept that, as a result of that, it is difficult to get to the cost structures that the committee needs to scrutinise?

Maree Todd: I am confident that we will be able to provide you with an updated financial memorandum that will give you sufficient comfort four weeks before the stage 1 debate.

To reassure you, Fiona Bennett can give you a little bit more information about what we are doing and how we will do it.

Fiona Bennett: As noted, the revised financial memorandum will contain the sort of range of assumptions and cost estimates that would be expected at this stage while the co-design work continues.

We mentioned the business case process, which is important, and we expect optimism bias to be built into the programme business case stage and strategic outline business case stage in line with green book guidance. That approach complies with how we should do things. As we move into the outline business case and full business case stages, the costs will narrow and become much more specific and detailed.

We will follow the business case processes through. However, at the start of this process, there will be uncertainties as we work through the co-design process and the agreement with COSLA, and there will be a range of assumptions set out in the financial memorandum as well as risks as the cost profile narrows through the business case process.

Liz Smith: Minister, how long do you envisage the co-design process taking? How many more months will we be doing it?

Maree Todd: Co-design is a core part of the national care service. I do not expect it to finish by Christmas; indeed, I expect it to continue throughout the bill's development and to be a fundamental part of the national care service in future.

Donna Bell can give you a little bit more information.

Donna Bell: As you will expect, given the bill's content, we prioritised over the summer the areas that are key to the development of the legislation and the provision of information to Parliament and others, as well as the things that are most important to people. Five co-design themes are specific to the bill's development. Coupled with the engagement with local government, the trade unions and the NHS, that work will give us a better understanding of what people want from the process and what partners want to contribute to the legislation. Although the co-design process will be a long-term, enduring and key part of the national care service, we are prioritising the areas that will have the most impact on the bill, and that will enable us to provide you with the assurance that you need.

Liz Smith: Will you tell us what those themes are?

Donna Bell: They are keeping care local; information sharing; models of care; and—oh, gosh. I am sorry—I have had a mental block. Perhaps Fiona Bennett happens to have them in front of her. I am sorry—I should know them. I have been at multiple co-design events.

Fiona Bennett: We have sent a letter.

Donna Bell: I will find them. There are particular issues around keeping care local and information sharing—which, interestingly, has been the most popular theme.

Doing that prioritisation work and carrying out an iterative co-design process have been helpful in ensuring that the bill is suitably framed. As we get into more detail on the framework and the secondary legislation, the approach will allow us to engage proactively on additional detail in the co-design process.

It is important to point out that we are not talking about the design of service delivery. We are not setting out how specific services will operate at the local level—that will be for the local partnership arrangements in future. This is just about getting the broad frame right and making sure that we have the information and input that we require.

10:00

Liz Smith: Thank you.

My final point is on one of the difficulties that we had this time last year, which was the strong criticism that we heard of the Scottish Government's proposals from people on the front line of delivery, including some in council authorities and care services. There was a bit of a contrast between what they were saying and what those who had experienced care were saying. Have you consulted in great depth those who were critical of the proposals, because they felt that the costs had not been fully set out and, indeed, told you that the bill for the whole thing was going to be much more than you had predicted? Do we have some statistics for the figures that COSLA and local government said were a bit of a concern? Has that arithmetic been done?

Maree Todd: The focus of the discussion with COSLA has been not on cost but more on its concerns about the transfer of staff and its wanting to maintain its statutory responsibilities for commissioning and procurement. In other words, the focus was less on financial costs and more on power and assets. We have worked closely with our local authority partners, and the Verity house agreement has helped us in that respect.

We have also worked closely with unions that have been critical of our approach. As I have said, I feel that we are now in a much healthier place; we are working closely together—although we do not always agree—and our eyes are firmly on the goal of delivering an improved service that works for the people who access care and for those who work in care.

Liz Smith: That is important, but it is even more important for the costs that go along with those changes to instil confidence in people that the bill will be deliverable. That is the area that concerns the committee, and I suggest that there is still an awful lot of work to be done before the next financial memorandum comes back to the committee to give us a much better idea of the costs, given the divergence of opinion.

The Convener: Before I let John Mason come in, Michelle Thomson has a supplementary question.

Michelle Thomson: I want to pick up on the point that Liz Smith made. As well as finance, the committee is concerned with public administration, and we all know that the public purse is right under the cosh and every penny is a prisoner, if I may use that terminology. That suggests that the relentless focus on cost and value must be accentuated, but I am not necessarily sure that I am confident about that yet. For example, we all concur that the Verity house agreement is about a positive process but we do not yet understand how the fiscal framework will operate, because that work has not been done.

I suppose that the question is whether, as well as the top-down, policy-driven and thematic approach that you have outlined, you are doing the work to ensure that every single funding line is managed very tightly. That underpinning will give the committee confidence, not just on the finances but in terms of the public administration part of our remit.

Maree Todd: When we come back to you with the financial memorandum, I would certainly expect you to be able to have absolute confidence in what we produce.

Michelle Thomson: I have a wee point off the back of that. We have not discussed the national care service board and the governance therein today, although we may well at some point in future but, in the light of the current situation, I would expect to see the same rigour in its financial governance as in the policy element and standard governance. Again, I ask that you give that just as much attention, with a bottom-up as well as a top-down approach.

Maree Todd: Absolutely. I am confident that we can improve the local scrutiny of spend. At the moment, there are times when it is hard to follow the money, and that is sometimes the explanation for challenging situations on the ground. If we empower our local structures and provide them with adequate data and the ability to scrutinise where money is going in the system, we will have a system that operates much more efficiently and that delivers much more effectively for people.

Michelle Thomson: Being able to follow the money will work for us, I sense.

John Mason (Glasgow Shettleston) (SNP): One of the quotes that the convener used earlier was from your letter from July, which talked about "consistency of outcomes". I presume that that is one of the main aims. Sometimes, there is a bit of tension between consistency of outcomes nationally and doing things locally, which you have just referred to, and I wonder how that will impact on costs. For example, in the Highlands, distances are greater, so if somebody is going to visit a person at home, that will take longer. It is also further to get to hospital, which is a different issue. However, by contrast, in Glasgow, there is sometimes a feeling that people have to be in greater need to get an intervention than is the case in other authorities, just because the overall need is so huge.

At the moment, COSLA and the councils get their funding through a formula. Will the national care service override that formula? Will finances be targeted at areas of greater need? How will that work?

Maree Todd: You are absolutely right—you have picked out one of the real tensions in the bill and in the idea of national oversight of the social care system. You are preaching to the converted on that. I come from the rural west Highlands and I represent the northernmost and biggest mainland constituency in Scotland, and I absolutely recognise that care cannot be delivered in exactly the same way in every part of Scotland. NHS Highland, which is the health board in the area where I live, has its own model of integration—we have the lead agency model and the rest of the country has a different model. In Ullapool, where I live, accessing care is a very different experience from accessing care in Inverness, which is a city and is much more like Edinburgh.

There are fundamental differences throughout the country, but we are focused on the unnecessary variation. The thresholds of need should not vary quite as much throughout the country, and there should not be a variation in quality throughout the country. It is not acceptable that people in one part of the country have to accept a lower quality of care. We want the standards to be high everywhere. There are variations in pay and conditions, which are really challenging and threaten service delivery in parts of the country. For example, the social work profession, unlike nursing or teaching colleagues, do not have a standardised approach to their pay and conditions. Working through the national social work agency, we will be able to improve that.

I will use Shetland as an example, because I really enjoyed visiting there as I had not been back for a number of years—since pre-pandemic—and it was a pleasure to go back to an area that I used to represent. Shetland has integrated health and social care very well, so was fairly healthily sceptical that the national care service would offer it anything. It is doing things pretty well as things stand, but we were quickly able to identify certain areas in which a national approach could support local delivery, including support with social work training and legislative changes to information sharing, which will vastly improve the experience for people on the ground. I agree that there is tension and that it needs to be done very carefully, but it is possible to raise standards generally and to reduce unnecessary variation without impacting too much on the way that people do things locally.

It might be down to the part of the country that I represent, but another very important thing to consider is that young people with disabilities who access care packages can find it impossible to move freely around the country because their care package does not follow them. We need to improve the system to make it more straightforward for them. I want young people in the Highlands to be able to go to university, and that almost inevitably means going away. I want them to be able to access education and to be able to choose employment that suits them. They need to be able to move around to do that. The national care service could definitely improve the situation with transition across the boundaries that we currently have, which are impossible for young people to navigate.

John Mason: That was a very full answer, which I appreciated and largely agreed with. Have we got to the detail of how the finances would work for that? If, for example, a young person has a care package in Shetland and then they go to university in Aberdeen, would the money move with them? Would that be up to individual councils or would it be so nationalised that it would all come out of a national pot?

Fiona Bennett: On your point about the funding formula, NHS boards are currently funded through the NHS Scotland resource allocation committee funding formula and local government is funded through the grant aided expenditure formula. One of the questions that we are working on with COSLA ahead of the bill is whether reformed integration joint boards will receive direct allocations and, if so, what funding formula that would be on. We are all in agreement that the formula would need to take cognisance of rurality and of demographics in local areas.

On the specifics of the funding following the individual, we would need to work on a mechanism by which to allow the transparency to follow the money and to allow the barriers that the minister spoke of to be broken down. The detail has to be worked through, but it is fundamental to increase transparency through the funding formula to make it clear what services will be funded via which route, so that we can follow the funding.

John Mason: Okay, so we will learn more about that in due course; that is great.

The minister wrote to me on 16 June, when I was in my temporary role as convener of the committee, and mentioned working

“on policies to support improvement in the delivery of social care support that are not reliant on the NCS legislation”.

Has the split between what we can do now and what we need the legislation to do changed—or is it in the process of changing—so that we are less reliant on the bill and could do more without it?

Maree Todd: We are always looking for opportunities to improve the system, and I point to the increase of the minimum wage to £12 per hour, which did not require us to wait for legislation. The decision was made by the Scottish Government to deliver that from the next financial year, and I am so delighted that we are able to deliver that without the need to wait for primary legislation. There will be other areas that we can improve on, and some will require primary legislation, but we are always looking for opportunities to improve.

10:15

This week—tomorrow, perhaps—we will get a review of scrutiny and inspection. We will consider that publication keenly to see what we can do and how we can take its recommendations on board. The regime of scrutiny and inspection is a tool that we can use to improve quality and consistency. If we think about the outcomes from the bill that we are aiming for, we can see that the review will be a crucial piece of work. I cannot pre-empt the report, which I think will be published tomorrow, but I imagine that not every recommendation will require primary legislation to effect change. We will look for changes that can occur without the legislation, because we are keen to set ourselves on a trajectory of improvement of delivery from day 1—from now.

John Mason: I want to ask about one minor point, for clarity. In the annex to the letter of 16 June, figures were quoted for 2021-22 and 2022-23, but for 2023-24 it says “period 1”. Is that the first month or the first quarter?

Fiona Bennett: It is the first month. We now have figures for periods 1 to 4, so we can give an update on those original figures.

John Mason: If I wanted to find the annual figures, could I multiply the period 1 figures by 12, roughly?

Fiona Bennett: Roughly—yes.

The Convener: I apologise. When I was asking questions earlier, I assumed that the figures were based on a quarter, but I now realise that they were monthly.

Michael Marra (North East Scotland) (Lab): Minister, you will be aware that the Government’s medium-term financial strategy projects a shortfall of £1 billion in 2024-25 and £1.9 billion in 2027-28. What has the Cabinet Secretary for Finance told you that the country can afford to spend on the national care service?

Maree Todd: We are working closely together on defining the needs of the country and what we can deliver. I will be candid and say that the cabinet secretary has not set a ceiling. We are looking to deliver a social care system that meets the needs of the population.

Michael Marra: So, she has not given any indication of the spending envelope that might be available.

Maree Todd: As you will know, we set out a financial memorandum this time last year. That was the envelope that was put forward with the original draft legislation, but it is changing as we develop the legislation. We are determined to develop a system that meets the needs of the population. You will be aware that there is a commitment at Government level to do that. I will continue to work closely with the Deputy First Minister to ensure that we are able to afford and deliver a national care service that works.

Michael Marra: When the medium-term financial strategy was published, the Scottish Parliament information centre, the Fraser of Allander Institute and the Institute for Fiscal Studies all commented that figures for the policy were missing from those projections, so whatever you are being given to spend to make the policy happen is not included in them.

It comes down to the question of what comes first. You are saying a lot about co-design and putting the right system in place, but I am not getting a sense of real confidence that we are working in a financially prudent way to think about the financial limitations. How far are such limitations informing the co-design process?

Maree Todd: I am not sure whether Fiona Bennett wants to come in on that. I think that we will be able to reassure you when we publish the financial memorandum.

What is missing from your question is the value of social care; in some ways, you are looking entirely at the acquisition cost. If we get social care right, what it delivers is of huge value to the nation. I would expect that a national care service will make a difference not just to the individuals who access care but to their families and communities.

There are some gains to be had from spending more. I would expect to see an increase in productivity. For example, I would expect that all the people who tell me that they cannot work because of their caring duties could be supported into employment.

Increasing the wages of the lowest-paid people in our country will bring an economic benefit. You are looking only at one side of the balance sheet at the moment but I expect there to be another side of it. Of course, as well as current ways of raising money, there may well be different ways of raising money in the future. However, that is well outside my portfolio. Fiona may want to add something.

Fiona Bennett: You have covered it, really, minister. We already spend £4 billion on social care; as much if not more focus has to be on ensuring that we are getting value out of that large amount of expenditure that is in the system. Yes, in the current fiscal framework we have to look at minimising additionality of spend in creating the national care service. We have to drive the value through the expenditure that is in the system and, looking at the balance across health and care, we have to think about how we can invest in prevention, which will better meet demographic needs in the long term and will be a more financially sustainable system.

Michael Marra: I assume that in the business case and the policy evaluation we would see that great social benefit, the preventative money and where we would save money. I am in full agreement, minister, with regard to those huge, varied benefits, but the reality is that we have to be able to pay for them.

Maree Todd: I will give one simple example. Over 10 years ago, the Christie commission told us to spend money early instead of pulling people out of the water and we want to spend money preventatively. If an elderly person is admitted to hospital and gets a care package, that care package will, on exit from hospital, cost twice as much as it would have cost had we managed to catch them before they went in. There will be efficiencies if we do this well. I need to provide you with that assurance.

Michael Marra: I think so, because we all know the huge costs of the failure to eliminate delayed discharge.

Maree Todd: Absolutely.

Michael Marra: Have you decided on the inclusion of children's services?

Maree Todd: No.

Michael Marra: Do you have any indication of the costs that are associated with that? That is thousands of staff, isn't it?

Maree Todd: There will be a decision on that point towards the end of the year.

Michael Marra: That will be stage 1. Will the cost impacts be included in the financial memorandum?

Maree Todd: Yes.

Michael Marra: In your letter to us, you committed to completing stage 1 by 31 January 2024. The convener has it on the record that the financial memorandum should be provided four weeks prior to that date. Working back, we are looking at your having to provide the financial memorandum—by my reckoning—by around 11 December. Do you have a date in your diaries for when you will send the financial memorandum to the committee?

Maree Todd: No. You will appreciate that when stage 1 happens is not entirely in my control but more in the Parliament's control. However, we will certainly furnish you with a financial memorandum four weeks before, as promised.

Michael Marra: What I am working towards here is that that is not very far away.

Maree Todd: No.

Michael Marra: It feels to me as though there are an awful lot of moving parts. There have been questions from colleagues about our still being in the depths of co-design and our not having taken a decision on the inclusion of critical areas such as children's services, around which there are huge financial issues. Taking into account recess, we are looking, by my reckoning, at having to receive that memorandum roughly on 11 December, which is just weeks away. Do we have a draft of the financial memorandum?

Donna Bell: May I come in? Part of the spend that you see on staff, which is included in the figures that you have, is about the groundwork to support the decision making. As Ms Todd has said already, the business case and the financial memorandum continue to iterate. We do have a draft, but it might not be in its final form at this point.

A significant amount of research has been done on children's services and on justice services, some of which has already been published and more of which will be published towards the end of October and the beginning of November. That will allow ministers and the cabinet to reach informed conclusions. The groundwork is really important in order to ensure that those decisions are informed by the best information possible.

Michael Marra: My last question relates to that specific issue. One of the issues with the inclusion of children's services was the fact that most social work practitioners in Scotland had no idea that this was being proposed or that they might, as a result, be transferred from their current employers into some different form of employment that had yet to be decided. Has any proper engagement happened with the profession in that respect?

Maree Todd: There is a lot of engagement with the profession, but there is no proposal to transfer employment. With the agreement between us and COSLA, that will no longer be necessary for any staff.

Michael Marra: That is good to hear. Thank you.

Jamie Halcro Johnston (Highlands and Islands) (Con): Good morning to the minister and her colleagues. I am fairly new to this committee and, although this is not the first time that I have seen this proposal, I have not looked at it in this depth of detail and was not here for the previous discussions.

Michael Marra has rightly said that, for all the value that this brings, it still has to be paid for. I am not sure of the exact wording that you used, but I think that you hinted at or suggested other ways of generating revenue. Does that mean having to introduce new taxes, increase taxes, bring in new fees or whatever to pay for taking this forward, if the costs are higher than expected?

Maree Todd: I will be working very closely with the Deputy First Minister to design a social care service that works for the people of Scotland and, as with every area of spend, she will be ensuring that we have sufficient funding to put behind it. However, that is definitely outside my remit.

Jamie Halcro Johnston: Have there been discussions about the need to find new ways of generating revenue for the scheme?

Maree Todd: There are always discussions in Government about how to generate revenue for public spend, particularly at a time of constraint as we have at the moment. I would expect discussions to be on-going in that respect. You will be aware of the public statements that have been made on care and the balance that needs to be struck in that respect, but that is absolutely outside my portfolio.

Jamie Halcro Johnston: Michael Marra rightly suggested that a number of areas have not been fully considered in the bill. The original financial memorandum estimated the costs of the bill over the five years between 2022-23 and 2026-27 as being between £644 million and £1,261 million. Are those still the estimates, or are the figures considerably higher?

Maree Todd: As I have said, we will bring forward a revised financial memorandum—

Jamie Halcro Johnston: Is that something else that is being looked at?

Fiona Bennett: The figure will be considerably lower over the time period that you have quoted, because of the rephasing of, in particular, the introduction of the local structures.

Jamie Halcro Johnston: It will perhaps be lower over that period, but do you expect it to be higher going forward?

Fiona Bennett: That depends on the decisions that are taken. Table 8 of the first financial memorandum included the significant costs for the potential transfer of staff; now that that proposal is off the table, you will expect those costs to disappear. We therefore expect the figure to be lower overall.

Maree Todd: The rephasing will probably mean less spend, as there will be less of a need for external consultants.

Jamie Halcro Johnston: That probably answers another question that I was going to ask. With regard to the £971,000 figure for the costs in period 1 of 2023-24—that is, for just one month—I think that the Deputy First Minister said in February that the figure for 2023-24 was likely to be no higher than £50 million. You therefore expect the figure to be considerably less than that.

Maree Todd: Yes. That figure is reasonably close to the lower end of the range, given that, with the initial financial memorandum, we were expecting the bill to go forward and complete its passage by summer, with the work ramping up and being phased in a completely different way. A lot of work would have been going on in that financial year, but that is now not needed as a result of the extension of the bill timetable and things being spread over a much longer time. The process with regard to expenditure is still being worked out.

Jamie Halcro Johnston: It is down to evolution rather than devolution or anything else.

Maree Todd: Yes.

Jamie Halcro Johnston: Okay.

My last question was on the potential VAT liability, about which concerns were raised. Can you give us an update on where that stands at the moment?

Maree Todd: I will ask Fiona Bennett to answer that question.

Fiona Bennett: I am happy to do so. In our last update, we said that, if IJBs were to be reformed—this brings us back to the point about direct allocation—they would need section 33 status as VAT bodies if there were to be a full recovery model.

10:30

We engaged early with HM Treasury to understand its viewpoint before introducing the changes that we are looking to make. That will be an on-going process. On the co-design point, as that is worked through and we understand the final format of integration joint boards and what they may become, we will keep abreast of that from a VAT perspective. However, we are clear on the boundaries around what would trigger a VAT liability, and we are having very early discussions with the Treasury on that.

Jamie Halcro Johnston: That figure was originally estimated to be around £32 million; is that correct?

Fiona Bennett: That figure was calculated in relation to the Public Bodies (Joint Working) Act 2014, so we expect it to be, with inflation and increased costs in care, between £50 million and £80 million of potential liability.

Jamie Halcro Johnston: That is a £50 million to £80 million liability, subject to discussion with HMRC.

Fiona Bennett: That would be the case if we were not able to get a section 33 body, but we do not consider that we would take that option.

Jamie Halcro Johnston: A lot of the correspondence between the committee and you, minister, has been on the lack of available data. You said that you will provide more information to the committee, but the information that was provided was fairly limited. Why was more information not provided, if it is available?

Maree Todd: I was not minister at the beginning of the bill, but going forward from now, I am certainly very keen—

Jamie Halcro Johnston: During this meeting, your colleagues have said that they will provide further information. We talked about period 1, and you said that four months of information are available. Was that not available when the information was requested for this meeting?

Fiona Bennett: When we sent the letter back in July, we had the period 1 figures, and we now have the period 4 figures. We have split it by year and by staff and non-staff categories. We can split it into a range of sub-categories, and we are happy to drill down into that information.

Maree Todd: We are keen to work with you—those letters back and forth are very helpful—and we will try to furnish you with whatever information you need to scrutinise the bill, because we want the bill to be the best that it can possibly be.

The Convener: That concludes questions from committee members, but I have one or two questions to wind up. I assumed that period 1 meant quarter 1 and I know that other members of the committee also thought that. If it just means April, why does it not just say April? We are talking about transparency and that is a pretty basic thing. Just put April 2024 for period 1, and put July 2024 for period 4. We all need to talk in simple straightforward language if we are going to talk about transparency.

We have talked about this being a framework bill and there has been much discussion about primary and secondary legislation. Given the changes that we have seen in the evolution of the bill in recent months, has the balance shifted between primary and secondary legislation? Will the bulk now be primary or secondary legislation? Where has that balance moved over the past few months?

Maree Todd: Donna, do you have a longer-term view than I do? It is still a framework bill, so we expect the detail to be in the secondary legislation.

Donna Bell: The balance may shift slightly, but the framework nature of the bill remains. We are still working through this with colleagues from COSLA and the NHS more broadly, but there may be some more detail in the primary legislation on, for example, the national board, which does not appear in the bill at the moment.

The original principles of flexibility that the former minister set out remain, such as the ability to be more agile in the development and iteration of the national care service. Ms Todd referenced the multiple changes that have occurred over the lifetime of the NHS. We expect the balance to be probably around the same, but we are not at the point of concluding that.

The Convener: What is that balance? Is it 30:70, 20:80 or 40:60? What are we talking about?

Donna Bell: We still have to work through the secondary legislation. As you can see from the current construction of the bill, it is high level. The detail will be set out based on discussions with

COSLA and the NHS and on the co-design process, so I cannot give you a percentage at this point in time.

The Convener: I hope that we will get more detail on that in the financial memorandum. I do not expect you to say, for example, 63.5 per cent, but it would be helpful to know the ballpark shares that we are talking about—perhaps two thirds or a half.

I appreciate the time given by the minister and her officials. In order to prepare for the next evidence session, we will have a wee break.

10:35

Meeting suspended.

10:41

On resuming—

Sustainability of Scotland's Finances

The Convener: The next item on our agenda is to continue taking evidence on the sustainability of Scotland's finances as part of our pre-budget scrutiny. I welcome Rachel Cook, deputy head of policy, Federation of Small Businesses Scotland; Sandy Begbie CBE, chief executive officer, Scottish Financial Enterprise; and Louise Maclean, business development director, Signature Pubs, who is representing the Scottish Hospitality Group.

I intend to allow up to 75 minutes for this session. I say to our witnesses that, when they want to be brought into the discussion, they should indicate to me or the clerks and I will call them. You do not all have to answer every question but, if I put a question to an individual, feel free to say that you wish to comment as well. We have your written submissions, so we will move straight to questions, which I will open. Eeny, meeny, miny, moe—who will I put my first question to? I will put it to the FSB.

The FSB has talked a lot, as has the Scottish Hospitality Group, about support for businesses, which is of fundamental importance for your sector and for the Scottish economy. Where are we on that? The FSB has said:

> "more than half of the businesses who responded [to our survey] do not feel Scotland is currently an attractive place to start up a business".

First, how does that relate to other parts of the UK, Ireland or anywhere else? It is important to get that in context. Secondly, will you talk us through what the Scottish Government could do to make Scotland a more attractive place in which to do business?

Rachel Cook (Federation of Small Businesses Scotland): Thank you for inviting FSB Scotland to the meeting. We are glad to be here to talk about the sustainability of Scotland's finances. In particular, on entrepreneurship, new business formation is one of the key drivers of economic growth. High business birth rates drive up innovation, productivity and competitiveness, and we particularly want high levels of those things post-recovery. However, Scotland currently has its lowest business birth rate in 11 years, and more than 2,300 fewer businesses are operating in Scotland now compared with the number at the start of the pandemic. That puts into the picture frame the fact that businesses are slipping through the net of the economy.

As you mentioned, more than half of small businesses across Scotland said that they do not feel that it is currently an attractive place to start up a business, and more than two thirds of small businesses cited the economic uncertainty and the overall cost of living crisis as the main reasons why that is the case. Despite that—to be more positive—more than three fifths of the SMEs that responded to our survey said that they hope to grow within the next two years. However, the cost of living crisis will be one of the biggest barriers to growth.

10:45

It is important to us that the hunger for growth in the small business community does not go unrecognised. Small businesses want to do well, expand, invest and be part of their local economies. To do that, however, we will need support. As you can see from our submission, we do not want businesses to be deprioritised. We understand that fiscal stimulus is difficult right now and that the Government is working within a very challenging economic situation with regard to budgets, but there are ways that do not always have price tags to ensure that we target things such as entrepreneurship.

There was a review of the national outcomes recently and, within that, we have called for a sole focus on entrepreneurship as both a national indicator and a national outcome in itself. Currently, that does not exist, so we are not measuring our progress on being an entrepreneurial nation despite the fact that it is a huge part of the Scottish Government's remit—and part of its national strategy for economic transformation—to see more entrepreneurs.

We do not yet know what the £15 million for entrepreneurship under the programme for government will entail. We want to unpack the detail of where that funding will go to ensure that we remove the practical barriers to entrepreneurship, including by improving childcare and flexible working—all the things that make Scotland a more attractive place to start up a business.

Our survey found that over 82 per cent of businesses that are owned by 18 to 34-year-olds want to grow in the next two years. The younger generation of entrepreneurs that is coming through wants growth, and we need to ensure that those businesses do not remain as untapped potential.

We need to pinpoint what being an entrepreneurial nation means for Scotland, and we need to attract talent and put business support in place to ensure that it is not difficult to start up a business. However, economic uncertainty, rising inflation and spiralling energy costs are preventing people from starting up their own businesses. It is a difficult time.

As regards the budget, we need to set targets to ensure that we spend money in specific ways, but we also need to look at other ways that we can encourage entrepreneurship in Scotland. As I said, we should create a national indicator that measures performance against those targets. In the current climate, we should also look to make things a bit easier for start-ups by using a one-door approach to the provision of support—we have heard that there is currently a cluttered landscape—through enterprise agencies and so on, so that information about what is out there is more available to people and support is simple and effective.

The Convener: You did not answer my question about how Scotland compares with other parts of the United Kingdom with regard to attractiveness for setting up a business.

Rachel Cook: I do not have the exact statistics for Scotland versus other parts of the United Kingdom, but we know from our small business index monitor that business confidence is at a low. We are in negative territory across the entirety of the UK due to the economic uncertainty, so it is not solely a Scottish issue. We see that problem across the board, according to the FSB, including in Wales, England and Northern Ireland.

You mentioned the specific statistic from our survey that half of the respondents do not think that Scotland is an attractive place to start up. That was a Scotland-only survey and I do not have a direct comparison with what entrepreneurs in England or Northern Ireland think. However, it is clear that the cost of living crisis is affecting that. I am happy to come back to you with the exact comparison.

The Convener: Okay. Is the FSB having discussions with the Scottish ministers about how the £15 million entrepreneurship fund could and should be spent?

Rachel Cook: Not at the moment. We are looking to have those discussions now that the Parliament has returned from the recess. We are part of the new deal for business group, and we are looking to have those discussions and get further clarity, including through its sub-groups. We are also committed to seeing that the recommendations of the new deal for business group are followed through.

The Convener: Is £15 million a realistic sum?

Rachel Cook: It is hard to tell whether it will be enough. Obviously, we welcome a cash injection of any type to help businesses from start-ups to scale-ups. However, it is difficult to understand whether that will be enough, particularly as we do not yet know all the details of what the £15 million will look like—whether it will be in the form of grant support or whether it will be for the enterprise agencies, for example. Until we see those details, we will be unsure about whether it is enough. However, we welcome any additional support to help Scotland to become an entrepreneurial nation, which is a Scottish Government target.

We are also looking at other means of support. The small business bonus scheme helps, as does targeted procurement spending. As I said, on top of the cash injection, there are other ways to help to set Scotland up to be a more attractive place to start a business.

The Convener: Sandy, where do you stand on issues such as investing public money in setting up new businesses and supporting innovation and start-ups?

Sandy Begbie CBE (Scottish Financial Enterprise): I will go back to your first question, which was about investment and how we compare with the rest of the UK, and I will say a quick word about our sector. On the positive side, our sector in Scotland has regularly outperformed every part of the UK other than London and the south-east on investment in our industry, which is measured annually by the EY foreign direct investment survey. The argument is therefore that Scotland is quite an attractive place to start or invest in a business in financial and professional services.

The three main reasons are the strength of the ecosystem, whereby people can plug quite straightforwardly into what already exists; our human capital, which concerns the strength of the skill base; and the cost and quality when those aspects are put together. Given that a main comparison is with London, we have a wage arbitrage of about 25 to 30 per cent to Scotland's benefit, and commercial property prices are lower while the quality equals that elsewhere.

Scotland's financial and professional services, as compared with those in other parts of the UK—we hear a lot about Belfast, Bristol, Manchester and Leeds—are in a strong position. However, we may touch later on the on-going issue of the relationship with the public finances and the strengths that we need to invest in.

Your broader question was about start-ups and scale-ups. We produce a banking barometer and NatWest produces a regular survey and, to echo what has been said, I think that confidence is low among small businesses. In general, the economy is not growing particularly strongly, as we know. We have reasonably strong performance in start-up businesses that come out of the university sector, for example, but we fail to convert such start-ups and scale-ups into bigger businesses at the rate that we should. We are not performing as strongly in that space as we need to be.

The Convener: A couple of weeks ago, I attended your reception in the garden lobby, which you spoke at. It was interesting that BlackRock pointed out that it is going to increase its workforce in Edinburgh from 1,000 to 1,500. Financial services forms 13 per cent of Edinburgh's workforce but 30 per cent of the economy, so the sector punches well above its weight. BlackRock is to employ another 500 people and, if my memory serves me, I think that it manages £10 trillion—or whatever it is—of funds. The base is strong, but we must maintain the competitive advantage.

It is important to have start-ups and to support innovation in new businesses, certainly at Rachel Cook's end of the scale, but is it also important to ensure that larger businesses continue to grow and thrive?

Sandy Begbie: We are the first to admit that start-ups, scale-ups and entrepreneurship must be part of the future of the Scottish economy. As we sit here, we probably have a handful of businesses at scale that are contributing to the economy. Given the position of the public finances, which is well documented, supporting and scaling such businesses further in the next few years must be a key part of our economic strategy.

Our sector employs about 150,000 people in Scotland and it contributes almost 10 per cent of gross value added—the sector is worth almost £15 billion and it has exports of £9 billion. It is important that the whole economy benefits but, on your point about how we generate more economic growth in the relatively short term, that will come from existing large sectors, while we continue to grow other sectors, such as space, in parallel.

The Convener: Louise, hospitality's share of the economy is smaller, but the number of people who are employed in it is larger. You have raised a number of concerns about non-domestic rates and reliefs. However, I am not really seeing any pounds, shillings and pence being applied here. It is always frustrating for us looking at finance when people tell us what needs to be done without saying what additional resources will need to go into, say, supporting the hospitality sector. You have mentioned a number of areas where it can be supported, but what additional funding is the sector looking for across Scotland and how would that be financed?

Louise Maclean (Scottish Hospitality Group): The main thing about hospitality just now is that we are on an absolute precipice. I am sure that the number of closures just now will not have escaped your notice. It has never been harder to operate in hospitality. I have been in the industry for far too long, and what we are facing is a double whammy. We felt slightly persecuted during the pandemic; recovery has been painful; and it is not showing any signs of getting any better. We have also been hit with energy costs and we have extraordinary recruitment challenges. Not only is there a lack of confidence in the business sector, but there is a massive lack of confidence among consumers, who are seeing their pay packets not going as far as they once did.

For hospitality to survive, and I genuinely mean “survive”, we need some form of funding and support. What we had hoped for was relief from non-domestic rates to allow our profit margins to fund expansion. It almost goes back to what Sandy Begbie said. I am not seeing new entrepreneurs coming into hospitality; I am not hearing anyone say, “This is great—I’m going to put my savings into opening a new business.” The trade is getting older, but consumers are not, so the question is how we can stay relevant. I would love to see the new guys coming through, but there is no incentive for them to do so, because it is almost impossible to make money just now, or even to break even and not make a loss or go bankrupt.

The Convener: The whole purpose of this inquiry is to try to present a report to the Scottish Government in which we say, “These are the priorities that the Government should take forward in the next financial year.” We know that, at this stage, there is a £1 billion funding gap and that finances are challenging. It is very easy for witnesses to come along and say, “You should spend more money in our sector.” We have already had that from all sectors, but it is simply not possible unless we raise taxation very significantly—which, frankly, other witnesses have suggested that we do.

What kind of additional reliefs are we talking about? I think that the latest figure for rates relief is £693 million. How could that be changed or increased, and how could any change or increase be funded to deliver more for the hospitality sector in Scotland?

Louise Maclean: After the pandemic, England introduced its rates relief scheme, which we in Scotland did not benefit from. We would like that to come into play. We understand that it might cost around £85 million, but that money has already come through Barnett consequentials. It is in the system, and we would like it.

The Convener: So, in areas where Scotland has an advantage—for example, the small business bonus scheme—we should pay additional rates relief, but in areas where the UK has an advantage, we should ensure that all Barnett consequentials go into the sector. It would be a double-win for the sector, but it would impact on other areas of the Scottish budget. If that £85 million is to be used in hospitality and other sectors, where in the Scottish budget should the Scottish Government take it from?

Louise Maclean: I have no idea. That is not the sort of thing that, as I understand it, I am being asked for. I am here to present where we are with hospitality, which accounts for 200,000 jobs and a massive amount of tax going into the system through duties, income tax, corporation tax and everything else. Everyone pays those taxes. We want to expand, employ more people and support communities by ensuring that there is still hospitality provision, but I fear that, without some form of support, what I have just talked about will not be possible in the upcoming year.

The Convener: I can understand the reluctance to say where in the Scottish budget the money should come from; after all, you probably do not have the same understanding of the budget as we do, and why would you? It is not your job to have that level of understanding.

11:00

As for the Scottish Government’s philosophy, should it consider holding, reducing or increasing spending? If the latter, should we think about increasing taxation to provide that additional funding?

Sandy Begbie could argue that more money being spent in his sector would produce greater growth and therefore more taxation and more money for public services. You have heard the figures already. As I said earlier, the financial services sector accounts for 13 per cent of Edinburgh’s workforce but contributes 30 per cent of the economy, which is money available for public services. You mentioned that a lot of people—200,000—work in fragile communities where there is no other employment. They help to bind such communities, particularly those in rural areas in my constituency and many others.

Where would you want to pitch to the Scottish Government that additional funding is needed and where it should come from? In broad terms, should it come from taxation or from lower spending elsewhere?

Louise Maclean: We do not particularly want to see a trade-off. The point is that we want to employ more people. There is a massive desire to lift people out of poverty.

Hospitality is no longer a poorly paid industry. The hourly wages for our staff are really good. I cannot speak for the whole industry, but I can do so for Signature. Our entry-level staff, such as kitchen porters, earn anything between £13 and £15 per hour. Putting more jobs into hospitality and allowing us to expand will let us employ more people and, it is to be hoped, lift more people out of poverty.

The Convener: The Scottish Trades Union Congress's evidence to the committee was that the Scottish small business bonus scheme does not necessarily work. It has been saying that for years, incidentally. When I chaired our predecessor committee between 2011 and 2016, it made the same argument when it said that the money should go directly into public services. What would you say to that, Rachel? The STUC also said that if small business bonus money is to be spent, it should be tied to fair work. What do you feel about that?

Rachel Cook: More than a third of Scottish small and medium-sized enterprises currently obtain some level of small business bonus scheme relief following the recent reforms by the Scottish Government. The FSB argued that the scheme should be maintained, at least at its current threshold, so that it will remain the most generous of its kind in the UK, and that will help SMEs to grow.

As we know, the SBBS is a redistributive measure. Rateable values tend to be lower in areas in which trading conditions are more difficult, so it is hugely valuable in supporting local economies.

Before we get into fair work conditionality, however, I want to note that more than three-fifths of SMEs currently pay at least the real living wage. Those who do not offer it as a minimum cite financial barriers to doing so. SMEs have also been known to employ people who are furthest away from the labour market and to support employment and economic growth in a post-recession economy. They give back to their local communities and support flexible working.

We need to take a step back and remind ourselves of the value that small businesses bring to Scotland's communities. They make up 99 per cent of enterprises in the private sector, bring £110 billion into the economy and employ more than 1.2 million people. Any conditionality that we might currently think of putting on a business needs to bear such value in mind.

I would be hesitant to look at the SBBS as a form of handout. The small business bonus scheme is a relief for businesses, which need all the relief that they can get. We have pulled away many of the safety nets of support. The Scottish Government did its best to mitigate the risks of the pandemic, but most of the respondents to our survey cite 2022 as having been just as difficult as 2020, if not more so. That is because the support that was injected during the pandemic to help recovery has been winding up. Now that we are through 2022 and in the current economic crisis, we are struggling to see where businesses can afford to lose any more support. The SBBS is a form of relief that they currently need, and to remove that safety net of support could mean hampering them and our economy losing more of them, which in turn will affect growth.

We are keen to include and have suggested for inclusion a small business impact assessment that focuses solely on small businesses rather than just a business regulatory impact assessment. That is so that, if we were to consider reshaping, reforming or putting on any conditionality on the SBBS, we would have done that having first focused on what that it would mean for SMEs. There is currently no small business impact assessment. It happens in Northern Ireland, and we have seen it happen in England. We want to see it up here to ensure that the impact of any proposal to take away or change support to businesses is fully taken account of.

I would therefore hesitate to say that we should just remove the SBBS, particularly in the current climate. The FSB stands for maintaining it at the current threshold.

The Convener: That is absolutely fine; I just wanted to get your view on it and to know how important it is to you.

In your submission, you said that you want a

"more sensible approach to regulation",

but you did not spell out what you mean by that. What devolved regulation do you think hampers small businesses in Scotland that we could try to remove or change?

Rachel Cook: That is understandable. As we said, our survey found that more than one tenth of small businesses already spend more than eight hours per week, which is the equivalent of a full working day, on regulation. When regulatory constraints in any shape or form come in, businesses could do with understanding the system in which they are working. For example, when rateable values come, in businesses need to ensure that they apply for the SBBS.

A current example of legislation that is to be put in place is the Visitor Levy (Scotland) Bill. We spoke with a lot of members about that and recently made a submission to the consultation on the bill. If that legislation passes, there will be another burden on the accommodation and hospitality sector, in particular, which will mean that those within it will have to apply a levy to their charges. Doing such things is not simple for small businesses that do not have accounts departments or bookkeepers; they are the bookkeepers and they need to carry out any changes that are required as a result of what the Government implements. For example, when the deposit return scheme regulation is put in place, businesses will have a lot of work to do to understand what it means and also to carry out the changes.

Regulatory pressures such as short-term let licences, the visitor levy and the DRS—all of the things that are coming down the line or that have done so in the past—have an impact on the day-to-day operations of businesses. Historically, and based on statistics, we know that small businesses do not tend to have a lot of time, capacity or financial resource to carry out such tasks, so regulation needs to be simple and effective. For example, it will be quite complicated if visitor levy regulation differs between local authorities and a business works in more than one local authority and has to implement different charging schemes for different accommodation providers. We are arguing for simplicity in regulatory frameworks to ensure that businesses are working in the simplest process and that no penalties or burdens result if the regulations are not working or if they do not make sense for the jurisdiction that they have to work in.

As I said, we want to understand what regulations will mean for small businesses and how they will impact them, because at the moment we do not fully appreciate what the introduction of levies and regulations will mean for businesses.

The Convener: Sandy, what can we do through the budget to ensure that the Scottish financial sector remains competitive?

Sandy Begbie: We are conscious—[*Inaudible.*]—so it is less about funding, in terms of support. A lot of the players in our industry are UK players and global players, and they will make decisions and fund operations as they see fit, so for us it is about ensuring that Scotland continues to be an attractive place to establish a business.

On the global financial centres index, which is produced twice per year, looks at more than 160 centres globally and is sorted by city, Edinburgh is in the top 30 and has consistently been a global financial centre, and Glasgow has moved from the 80s into the 40s, which is a significant step up.

I mentioned the reasons that businesses are in Scotland, and I used the BlackRock example. BlackRock is adding another 600 jobs in Scotland during the next couple of years, predominantly because of the quality of people and also because of the cost and quality angle.

Our concern is therefore more about the broader business environment and about ensuring that we do not underinvest or take our assets for granted. A lot of the reviews of human capital that are currently going on are broadly going in the right direction, but they need to be implemented, so it is important that our education sector aligns with the needs of the economy during the next five to 10 years. Skills in areas such as data, artificial intelligence and automation will be in huge demand in our sector and in others, and we question whether the skills system is set up to deliver against the needs of industry.

Infrastructure is another concern. Edinburgh and Glasgow do not score as well on infrastructure in the global financial centres index. Infrastructure includes things such as connectivity and connection with other parts of the world. It is about being able to travel around all the infrastructure, but, to be blunt, other cities around the world are better in that area than we are. On the basis that you cannot be great at everything, we do have assets, but we need to keep investing in them.

You touched on tax, and it is important that we continue to be competitive not only with the rest of the UK but globally. You cannot look only through the lens of absolute tax. It is also about what businesses get in return for that and their ability to attract people. It is important that we keep having a rounded debate on that, but everything has its tipping point. It is not necessarily about the funding that our industry needs from Government; it is more about the broader business environment and making sure that we continue to be competitive.

The Convener: What is the tipping point that you refer to in relation to taxation?

Sandy Begbie: We look at tax not only from a Scottish perspective but from a UK perspective. We have called out the fact that the corporation tax changes put us at a disadvantage. Firms have chosen to move elsewhere. Citibank is a good example of a firm building its European head office in Dublin rather than in London, and that is partly related to corporation tax. There are examples of where that has driven investment elsewhere.

As it relates to Scotland, we have divergence in income tax and land and buildings tax. We know from some of our larger members that that creates internal challenges in moving people to Scotland. There is little evidence that people are leaving Scotland, but given what you have seen in the submissions on the demographic challenges, to be blunt, the young professional population of 25 to 35-year-olds who, might be based in Leeds or Manchester and perhaps work with big consultancy firms or whatever, are questioning why they would come to Scotland for five years, especially when they will be asked to be in the office only two or three days a week. Part of that is also because they would pay increased income tax and increased tax for buying a property.

I could give you a list of 20 or 25 firms that are having those live conversations. That is exactly the type of population that we want to attract to Scotland, and we should do everything that we can to attract them. To be blunt, free university and prescriptions are all great, but they do not really mean anything or carry any value for that population.

The Convener: That is very helpful. I have a final question for you, before I open up to colleagues. You talked about business rates and the need to perhaps look again at them in relation to supporting the hospitality sector. Those reliefs are obviously a blunt tool, although a welcome one. What other help can the Scottish Government provide to help to grow and ensure the long-term survival and prosperity of the hospitality sector?

Louise Maclean: It is about encouraging the next group coming forward. If 25-year-olds are coming into the city and the sector, that will make it an attractive place to do business. That is what hospitality venues are; they provide infrastructure for a community, but ultimately they are businesses and are there to drive expansion.

Success is a hard measure to quantify, but for a lot of people it is about how many people we employ. We are proud of the number of people we manage to employ in the hospitality sector. We need to do more of that so that we can have the thriving hospitality sector that we used to be famous for—there are numerous songs about Scotland's hospitality—but we lost it during the pandemic. I do not think that we have a thriving hospitality industry any more. It is bordering on surviving and I would like to see it flourishing. If the Government were to protect and nurture it, that would be a massive endorsement. That is what we ask. Can we nurture hospitality and allow it to develop again? It has not developed in any way for four years.

The Convener: I think that we would all agree that we need a lot more 25-year-olds in Scotland's working population.

11:15

Ross Greer (West Scotland) (Green): We could do with more 25-year-olds in Parliament as well.

In the first instance, I am interested in some of the questions around the small business bonus scheme. Rachel Cook, I am interested in your point of view on that. Is there not a credibility issue with the small business bonus scheme, in so far as it is not just small businesses that get it? Shooting estates, which are owned in tax havens and by billionaires, are receiving a tax relief that is, at least in terms of its name, supposed to be for small businesses. Every year, £5 million to £10 million of small business bonus scheme relief goes to shooting estates. Surely the FSB agrees that there needs to be some reform of the system, so that a tax relief that is designed for small businesses goes only to small businesses.

Rachel Cook: Yes—I think that that point is valid. As with any system that comes in, particularly around tax relief or tax systems, some issue always needs to be reformed. We are all for reforming whatever support is in there. We want the support to go directly to small businesses. The negative side of the SBBS that you talked about is valid—we do not want to see that happen either. We would like the SBBS to be directed to the smallest and most micro businesses that make up most of Scotland's private sector economy. As I have said previously, they employ people and give back to the communities. We want to see the SBBS being used for good—towards growth. As I have said, I cannot stress enough that, although a select number of businesses might be somewhat abusive of the relief, most of it comes to our members. They are small, micro and medium-sized enterprises that heavily rely on the support to keep their communities going. People on the high streets are looking for that small business bonus relief. We talk about the death of the high street and about 20-minute neighbourhoods and reviving town centres. The SBBS has to go hand in hand with the introduction of such schemes to ensure that small businesses get the best benefit from it, so that they can give back to the smaller communities and local economies.

Ross Greer: Thank you—that was useful. You also mentioned the visitor levy as an example of additional regulation. Is your issue about how it is implemented rather than the principle of the levy, or is the FSB opposed to any visitor levy at all?

Rachel Cook: We submitted a consultation response to that about two weeks ago. Our small business base is very diverse—it is not a monolith. We have diverse opinions on how people feel about it but, generally, we welcome the introduction of the levy. Our standpoint is that, at the moment, there is little detail in the bill of how the levy will look in practice and how it will be implemented. There are also discussions about things such as having a flat, capped rate, versus a percentage charge. We need to understand what that will look like for our members. We are not opposed to the levy; we just want to make sure that there is more detail on what it will come around to and what it will look like in reality and to ensure that it does not have a negative, adverse impact on our businesses.

We are concerned that the levy could bring some of our small business members over the VAT threshold. For example, when the business and regulatory impact assessment was carried out, fewer than two businesses under the threshold of £85,000 were consulted. We are concerned that a full enough picture has not been built up. Because VAT is fiendishly complicated and is a reserved issue, cost impact was not associated with that. We are concerned about the possibility that, when the levy is put in place, our members who currently sit below the VAT threshold might incur an additional charge, because they could be brought above that. That is why our long-standing request to the UK Government is to increase the threshold, in order to cushion the blows of things such as that for our smallest businesses.

Ross Greer: Louise Maclean, you mentioned that the Signature Group's minimum wage is about £13 or £15 an hour, which sounds really positive. I assume that that is a starting salary, whatever the age of the worker. As I think you mentioned in your evidence just a moment ago, your written submission includes an argument that additional non-domestic rates relief for the sector would be effective in terms of tackling poverty and low pay. I assume that the Scottish Hospitality Group would be relaxed if an additional relief was brought in, which was conditional on businesses paying at least the real living wage, regardless of age.

Louise Maclean: That is certainly up for discussion. It depends on how that real living wage is made up—for example, does it include tips or service charge? I absolutely welcome a wider discussion on that, once we have the parameters.

Ross Greer: But why should tips be included? Workers receive tips directly at the discretion of customers; it is the employer's responsibility to ensure that staff are, in this case, directly paid a wage that they can at least live on. Administratively speaking, I cannot see how you can bring tips into this, but regardless of that, I cannot see why you would do so as a matter of principle, either. Surely if a business is going to pay its staff at least a liveable wage, it is on that business to do so without relying on the discretion of customers.

Louise Maclean: A lot of people use a tronc system, which is a service charge that we have no control over. We brought in that policy; we now have a 10 per cent service charge—which I agree is discretionary—on everything, and 100 per cent of that money goes to our employees. It would be great if more and more businesses could do something like that to raise the money per hour that goes to every member of staff—everyone, both front and back of house.

I guess that it comes down to economics. If the real living wage had to be brought in, there would probably have to be another price rise for the consumer—and we are now at three price rises a year. There is a ceiling on what people will spend on fish and chips or pay for a burger, so this is a bigger equation than some trade-off between the real living wage and non-domestic rates. There needs to be understanding of the wider picture of what we are trying to achieve.

We all want people to get a good wage—indeed, that is why we brought in the service charge. One in 1,000 people object to it, and they probably do so when they have not had very good service. That happens. It is discretionary and can be taken off the bill, but every member of our staff loves the fact that we brought it in.

Ross Greer: On the point about looking at the wider picture and not seeing this as a trade-off between the two things that you mentioned, I take it that you will accept that low wages—or wages below the real living wage—have a cost not just to the public purse but to the wider economy, given that a worker earning below the living wage is not going to have much discretionary spending power. They will not have much to spend on fish and chips on a Friday night.

Louise Maclean: I absolutely agree, and if everyone in this room had a magic wand, we would not be here. We have to accept what we are playing with and how the cake is made up. However we cut that cake, though, what we want is to be able to fund expansion and recovery of our trade.

We would love it if no one was in poverty. We in hospitality have made great strides in elevating how people view the industry; we need more people coming into it, as we have the largest recruitment gap per every 100 people, and it is still not seen as that attractive an option. We have already done a lot of work on that, and we know that we have a lot more to do. However, we are talking about survival. I just cannot see how a lot of businesses are going to be able to survive without this.

Ross Greer: I completely appreciate the difficulties that the sector is under and that it is a question of survival for some businesses, but this is very literally a question of survival for those workers who are being paid a poverty wage.

Part of the challenge for us as a committee and for the Parliament overall is that really compelling asks are made of us for further expansion of the social security system. There is no reason why, in a country as rich as this, one in five children should be in poverty; we have spent £450 million-ish on the Scottish child payment to lift 90,000 children out of poverty, but there are hundreds of thousands more children whom we could lift out of poverty if we spent more money on that.

That money needs to come from somewhere, and it comes largely from tax. Income tax is the biggest tax lever that we have, but the fact is that, relative to the UK as a whole—and certainly to London and the south-east—Scotland is a low-wage economy. As a result, one of the ways in which we can tackle poverty directly at source while raising additional tax revenue that we can spend on direct interventions is by boosting wages.

However, what I am seeing are challenges when I look at, say, the media coverage the Government floating the idea of potential additional conditionality to existing non-domestic rates relief with regard to the living wage—I believe that that was off the back of a question asked by Liz Smith and answered by Tom Arthur. I saw comments in the press yesterday and today from the Scottish Hospitality Group objecting to such a move, and I am really struggling to square the circle of business sectors coming to Parliament and making a perfectly compelling and legitimate case for more spending or tax relief in their areas without being willing to accept the conditions that I think could be reasonably associated with that, not just to tackle the wider structural issues in our economy but to have a very direct impact on people's lives. Should it not be a straightforward case of saying, "Yeah, you know what—we do want additional tax relief but we are willing to take additional conditions alongside that to play our parts in driving up wages"?

Louise Maclean: I agree that there can be additional conditions, but it does not necessarily work. For example, speaking with my Signature hat on, we pay all our staff the over-23 rate of £10.42, regardless of how old they are. If someone comes in at the age of 18, that is the rate that they will get. On top of that, they get a service charge, which can be anything from £2 to £4 extra an hour. We are a really good employer. Because the Scottish Hospitality Group represents the independent industry in our sector, most of us are taking that approach. If all our staff are getting a really good rate, it is just about the cake.

If we wanted to ditch the service charge and pay the real living wage of £10.90, we would then have to put our prices up, because we have to balance the books somehow. We looked at it for Signature, and even if there was 50 per cent rate relief—let us say that that would come to £500,000—it would cost £424,000 to move our staff up to the real living wage. Our staff would probably be worse off because we would have to lose the service charge. It would be a backward step to move our staff on to the real living wage, because they already get more than that.

I am speaking only for the members of the Scottish Hospitality Group—and not all of them, because everyone has a different way of running their business—but that is what I mean. I am not trying to be difficult; I am just trying to say that there is not a one-size-fits-all solution in this room. Wider discussion is needed, and we in the hospitality sector need to explain more about how our business is made up, because it is not all straightforward and price rises fluctuate between geographical locations.

I would welcome more discussion on that, because it is not as straightforward as saying, "Gonnae go and pay the real living wage," because we are already doing more than that for our staff. They also get a lot of other staff benefits. We provide free food while staff are on their shift, so they get a free meal while they work. In January, all our staff can eat in any of our venues for free, if they are struggling because they have overspent on their credit card over Christmas, and they get staff discounts everywhere. We offer a massive range of benefits to our staff.

This is forward thinking—the new way of doing hospitality, as opposed to Pat Butcher with her gin and tonic with ice and a slice in the Queen Vic. We have moved on so much, and I would welcome the chance to sit down with some of you to explain how much we have moved on and how the welfare of our staff is at the forefront of every single decision that we make.

Ross Greer: You have made a very compelling case, for the benefit of the Signature Group's vacancies page, to anybody who is watching and considering a role in hospitality.

I have a couple of other questions, convener, but I am conscious of the time.

The Convener: I think that you have a question for Sandy Begbie, so feel free.

Ross Greer: Yes, I did not want Sandy to feel left out.

Sandy, I am interested in your thoughts on whether the Scottish Government is getting best value for money from things such as grants and public procurement. Quite a lot of money goes out the door to the private sector every year, entirely necessarily, but is the Government doing enough to ensure that the benefits of that stay in the Scottish economy? Naturally, some of that goes towards larger companies, including multinationals—again, unavoidably—but is the Government doing enough through, for example, public procurement mechanisms, to ensure that it is maximising the benefits of that to the Scottish economy?

Sandy Begbie: That is a good question. I am not sure whether I can answer your question specifically. What I hear, particularly from SMEs and the third sector, where I do a lot of work, is that public procurement processes are particularly cumbersome and challenging and do not necessarily always result in the right outcomes. Also, we tend to find that different local authorities run slightly different procurement processes, so there is also an efficiency point to be made about the process. I have not personally engaged directly in the procurement process, but people find it really challenging at times.

Ross Greer: You mentioned the impact on SMEs, and I am conscious that Rachel Cook might have something to contribute on that.

Rachel Cook: Yes, definitely. On procurement, our survey showed that the majority of Scottish SMEs have never tendered for or run a public contract. Two thirds of Scottish SMEs have found the process to be complex and challenging, as Sandy Begbie said, and many of them feel that it is geared towards larger businesses. More than half of Scottish SMEs do not believe that procurement spend by local authorities and public bodies with micro and small businesses is sufficient.

Therefore, generally, the procurement process is really lacking and the fact that we are not seeing a larger procurement spend with small businesses means that there is a lot of untapped potential. Community wealth building legislation will be coming in, and we want to ensure that it supports local authorities to spend better with their microbusinesses.

As part of the reform of sustainability of the finances, we also talked about things that do not have price tags. Realistically, we could look to create a procurement target—a national indicator that sits within the national performance framework—that allows us to measure how many procurement contracts have been won by SMEs. The more we measure that performance, the more we can start to understand why procurement is geared towards larger businesses, why it is too complex an area and how we can simplify the system to make it more efficient and involve more local spend, to ensure that local economies can thrive.

11:30

Ross Greer: Just so I am completely clear, is the issue at the moment that we are not clear exactly what the barriers in the procurement system are to SMEs—although we can all probably guess and we have plenty of anecdotal evidence—and that, therefore, we need to do that basic data collection first before we come up with policy proposals?

Rachel Cook: Yes. As you say, there is a lot of anecdotal evidence. We hear from members about their first-hand experiences. Generally, the system is complicated and it can be convoluted to work through for businesses that do not have a lot of capacity, time or know-how in bidding for contracts when compared to larger businesses. You are right that there needs to be more data.

As a policy person, I am all for increased data, as we know that business data is lacking in Scotland. This committee has taken evidence on that, and many organisations, including us, have said that we need to increase the business data so that we can home in on the issues for each individual business, because businesses are not a monolith and it is not a one-size-fits-all situation. For procurement purposes and for local authorities, each need is different across the board, so we want improved data and performance measurement in those areas.

Ross Greer: Thank you very much.

Michelle Thomson: Good morning, everybody. We started this conversation with the convener asking about confidence. Sandy, what impact do you see on investor confidence and products in your sector of Rishi Sunak’s recent U-turn on net zero commitments?

Sandy Begbie: That is a good question. I think that investors are looking for a consistent landscape to make investment decisions. I am not giving any political view on whether the changes are right or wrong, but they create a degree of uncertainty in investors’ minds. You have heard some of the reactions, particularly those from car firms, which are a good example.

It is important for investors to have confidence about the business environment in which they are investing. The more you can achieve that, the better. In places such as Ireland, for example, there is consistency in the business environment that almost transcends even changes in Government. Again, this is not a political point, but windfall taxes, for instance, create uncertainty. We have seen that happening in the oil and gas sector, with changes in corporation tax and so on. Such changes create uncertainty in investors’ minds, and they may choose to invest elsewhere.

Michelle Thomson: Despite the Scottish Government’s protestations of continued focus, to what extent, if any, will the lack of confidence inevitably flow into funding flows, given the nature of how those operate out of the city? Is that lack of confidence inevitable, meaning that change in funding flows will take place, despite the Scottish Government’s protestations that it will continue on the path that it has set out?

Sandy Begbie: It is early days, but that may well be the case, because capital can flow anywhere in the world. At the moment, the provision of capital is not the problem, as there is money out there. The issues that we consistently hear about from investors that are our members are about the provision of investable projects, and about an environment in which they can invest, which is supported by things such as the planning system. Investors also talk about having skills available to execute the investment. I have said this many times, but we could usefully tighten up on those things in our business environment.

Michelle Thomson: Continuing on the theme of confidence, I am interested in the nature of confidence in women-led businesses. How is that distinct from the situation in male-led businesses? What is your data telling you?

Rachel Cook: The big small business survey that we carried out earlier this year was one of our most extensive. It was targeted both at our members and at SMEs more widely across Scotland so that anyone could take part. We were fortunate that there was a pretty even split between female and male respondents so that we obtained gender disaggregated data that enabled us to make a comparison.

When it comes to confidence, we have seen quite a lot of even splits across male and female-owned businesses where people do not feel that Scotland is a great place to start a business. The blanket focus for both genders is the current economic uncertainty and the cost of living crisis. Where we have seen a real issue with women-led businesses is that, unlike male-owned ones, they tend not to tender for procurement contracts or apply for external finance. We know that small businesses disproportionately rely on external finance to help their cash flow, investment and expansion, so if women entrepreneurs are not applying for such finance, or are struggling to get it, we will see a huge loss to our economy. As the committee will know, there is a lot of data to show that women not being able to do their jobs and not having equal opportunities hampers the growth of our economy.

One area that could be beneficial is the role of the Scottish National Investment Bank. Previously we said that we would like to see 20 per cent of its annual investment budget being targeted toward SMEs. As part of that approach, though, we would like to see the measurement and publication of the proportion of loans given not only to disabled and ethnic minority entrepreneurs, who are also less likely to apply for accessible finance, but to women. We want to see more women entrepreneurs.

As we have discussed, entrepreneurship can be difficult to get into. I am sure that other committees will have addressed issues such as childcare and flexible working arrangements. Self-employment SMEs more often tend to offer flexible working options and to fit in with childcare arrangements, but the lack of those remains the greatest barrier to employment opportunities and entrepreneurship. Therefore, when we talk about people entering the labour market, that cannot just be about them getting jobs; it should also be about them creating their own jobs, entrepreneurialism, and where we can see such barriers being removed. We want to see women being encouraged to apply for external finance, start up their own businesses and become young entrepreneurs themselves. At any point in their lives, they should be able to support their own dreams of having whichever businesses they want. However, we need to see more access to finance and more cash support being provided to women entrepreneurs. Where we are really seeing the issue is on access to finance, which, as I have said, leads to a lack of women becoming entrepreneurs.

Michelle Thomson: You have led me on to my next area of questioning. It struck me that £15 million is a relatively low figure for entrepreneurialism, given the figures that were bandied about before the 2021 election. I appreciate that, as you said earlier, it is still early days but, given the new deal for business, and Mark Logan and Ana Stewart's very good report on encouraging female entrepreneurship, what is your sense of there being a relentless focus on enabling more than half of our population?

Rachel Cook: The report that you mentioned is an excellent piece of work. It has started to paint a picture in an area where there has not been much clarity, in particular in Scotland.

We are aware that small businesses are struggling, but what that means for struggling entrepreneurs is different. You mentioned the figure of £15 million. As I said earlier, we welcome any form of cash injection, particularly in the current climate. At the moment every penny is a prisoner, so we must make the most of it.

Where we are seeing a lack of support is among the institutions, where levers exist and are ready to be pulled. That £15 million is great, but the bank is sitting there with an annual budget to invest. We need to pull that lever and maximise its disposal to ensure that there is a target for women entrepreneurs. Without such targets and measurements being put in place, we will struggle to leverage that part of our economy. That is why we are arguing for the bank to include the proportion of loans going to women in its figures, particularly those for micro and small businesses, which it currently does not do. Therefore we are looking to bolster areas where we can see women coming into entrepreneurship.

There will not be a silver bullet there. For example, as we have said, childcare is a big area, in particular for women in the workforce, and we need to see the provision of hours. The programme for government made a greater commitment on that, which we welcome. It is a huge area. We have heard from many of our members, and from women in particular, that childcare is an issue for them.

Michelle Thomson: I appreciate that it is a big area, and you are also coming off the back of questions that I myself asked of SNIB when I was a member of the Economy and Fair Work Committee.

I want to bring in Sandy Begbie and Louise Maclean to reflect on the focus on women in their sectors. I am aware that you have done a lot of work, and your statistics are different, but I would like to hear your reflections about entrepreneurialism, on the sum of money that we have mentioned and about the particular challenges for women in your sectors.

Sandy Begbie: As Rachel Cook highlights, there are lots of other elements of the system that need to be in place to support females into entrepreneurship. I also think—I have always maintained this—that our relatively average performance on entrepreneurship stems from schools; a lot of work needs to be done in schools.

If it was up to me I would put Young Enterprise Scotland in every secondary school in Scotland, because there are young people in schools who might not connect educationally or academically but who do really well in those types of situations. We need to start further down the track, and we need to encourage females and people from other minority backgrounds to be involved in entrepreneurship.

In our area, that entrepreneurship is in the fintech space. If Nicola Anderson was here, she would tell you that a lot of females are involved in that fintech space and we are starting to see more females coming into that. I contributed to Ana Stewart's work and we are starting to see some of that come through. However, I think that Rachel Cook's point is that we need a lot of other parts of the system to support females as they go through, because there are huge benefits, as has already been articulated.

Michelle Thomson: My last question will give Louise Maclean a chance to come in. I imagine that there are very particular challenges for women working in hospitality. Returning to the original theme of the session, what specific things can the Scottish Government do in your sector for the women working in it?

Louise Maclean: We have quite young people. It is the nature of the beast that people are quite young in the sector. We have a 50:50 split of general managers between women and men, which I am really proud of, because that was not the case 10 years ago. We have pushed on with that. There are also quite a lot of females in our senior team—in fact, definitely a higher percentage than men—which is also encouraging.

We encourage every general manager to put through an entrepreneurial shift every week. That is one of our values, which makes me sound so corporate and I do not mean it to, but it is huge. We want our general managers to treat those businesses as if they were their own. The biggest compliment to me is somebody who goes away and sets up on their own—when someone who has come through our business takes the leap and goes and sets up on their own. We work hard to encourage that. We pay them every week to put one shift through in which they can drive their own desires. That might be competitive research or it might be research and development. We push it hard.

I think that women in the sector are very well supported. We do not really have a gender bias in hospitality, which I am very proud of. We are as flexible as we can be. Broadly speaking, being a female has not held me back in any way and I came through the brewing industry, which is very male dominated, in the 1990s. No, I think that the female workers in the country are very well supported.

Liz Smith: Thank you very much for the evidence that you have provided so far, which has been very helpful to us. When, as the Deputy First Minister of the time, John Swinney was at this committee for the previous budget scrutiny, he flagged up three critical issues. One of them was entrepreneurship, and the second was about regional support in business. The third one, to which he ascribed considerable importance, was about the numbers of people who are economically inactive—people who have come out of the workforce in Scotland—and how that was causing a lot of difficulties. Perhaps it is people who, since Covid, have decided that they no longer want to work full time, so they are working only part time. Some of them have come out altogether, taking early retirement. He was very concerned about how we can attract more of those people back into work. Could you offer us some suggestions as to what you would like to see in the approach to the economically inactive? There is obviously a waste of talent from not having those people in work.

Louise Maclean: I would love to see people, certainly older people, getting back into work. They have skills of life, they know how to talk to people, they are not entitled and they know how to graft. I would love to see more of the older demographic getting back into work, but how we make that happen I do not know. When I went down to London quite a lot just after the pandemic, I noticed that there were a lot of 60 to 70-year-olds doing breakfast shifts in bars and hotels; it would be wonderful to encourage that. My mum is 72 and she started working in one of our bars yesterday, cleaning it for nine hours per week, because she is bored and wants to go and do the brasses. She is working in St Andrews for us. It is fantastic.

We need to do anything that we can to create jobs, but we also need to make those jobs attractive and give people the confidence to go into them. Once they are out of work, a lot of people's confidence takes a knock, so how do we say, "Guys, this isn't about pulling pints; this is about contributing to your own mental health and your own welfare, and it is about supporting businesses"? It is a brilliant opportunity, and we would be delighted to get behind it.

11:45

Liz Smith: That was helpful.

Sandy Begbie: I echo what Louise said.

First, there is something about data. Based on UK numbers, Scotland has a higher percentage of inactive people than other parts of the UK do, so it is important to know what is driving that. Secondly, employers need to be more open minded, and there is something about how all sectors can step up. There is clearly evidence, particularly in relation to people with physical disabilities, that employers are too close minded about different people who are currently inactive. Thirdly, how do we make it attractive to get back into work? There are perceptions about certain industries that would make some people who are inactive say that those industries are not for them. How can we break down some of those perceptions and encourage people to think about those jobs as viable options?

We need to do something. I remember hearing John Swinney say that he reckoned there are about 150,000 people in Scotland who could probably find themselves back in the workplace without much encouragement.

Liz Smith: That is why I asked that question; John Swinney impressed me with what he said about that. Those are people whose skills we desperately need—as Louise Maclean rightly flagged—and who have a wealth of experience, so trying to ensure that they come back into the workforce is critical. There is a productivity angle as well.

Rachel Cook: I probably do not have much more to say than what has been said by the other witnesses. To be fair, SMEs tend to hire people who are furthest away from the labour market and, although I do not know, statistically speaking, what that means in relation to economically inactive people coming into the labour market, I do know that SMEs can offer employees flexible working and community spirit in the local economy.

We have an ageing population in Scotland, and we also have an issue because a lot of people do not work where they live, so they commute and leave their local authority area to get work. That applies particularly to the younger generation, but it is also true of the older generation in Scotland. People should not have to go into big cities to get jobs, or go into the more affluent local authority areas that have thriving high streets as opposed to staying in areas that have dwindling high streets. We have a huge problem in that each local authority has different needs, so how do we inject life back into local areas to encourage people to have a job in the area in which they live? SMEs can play a part in that, but if they close their doors because they do not have support and they are struggling to keep their business afloat, they will not be there to offer the labour market opportunities that will bring people back into the workforce.

The FSB would love to be part of the discussion about how we can encourage the over-50s and the economically inactive to come into the labour market. That issue has been raised before, and we definitely think that SMEs would be a key player, in our small business community, in addressing that issue.

Liz Smith: Do any of you think that there is any sign that there is slight movement, and that economically inactive people are starting to look for jobs, or is it just a very difficult landscape?

Sandy Begbie: The stats will tell you that there is a slight turn down in the number of people who are inactive. Based on what the Bank of England said, a lot of that is to do with people who had chosen to take themselves out of the labour market but who have now realised that, as a result of the cost of living crisis and inflation, they need to put themselves back into the labour market, because leaving is not working out in the way that they wanted. There is a bit of that, but clearly there does not seem to be a lot of evidence that the long-term ill-health angle is changing.

Liz Smith: It is difficult. I also want to ask about high streets, and perhaps Rachel Cook is best placed to answer this question. Obviously, it is of great concern to many of us who represent rural communities that high streets in our smaller towns are decimated. What else can we do to try to reverse that trend?

Rachel Cook: Generally speaking, it is hard to have one solution for that. It depends. As we have spoken about, local authorities have different needs, which is an issue that also requires to be addressed with small businesses. As we know from our own data and other data, what works for rural businesses does not necessarily work for urban businesses. Our survey findings showed that a lot of our businesses said that there is not always a recognition of businesses' different needs when it comes to support. Therefore, rather than treating businesses as a monolith, we need to start looking at and digging deep into the data that we can gather and the general information around what it means for businesses in certain areas of Scotland, and at the demographic and geographic challenges that they do not all have in common. Trying to get more data in that area would be a start, but we need to see that support for businesses as we move forward.

The visitor levy is another area that we are generally broadly supportive of, but if that means that it becomes more difficult for one local authority and it is put at a competitive disadvantage, that will become an issue. We will start to see more of a divergence between local authority areas and businesses in their local high streets.

We need to see more of the simple and effective approach to understanding what businesses need, and we need to see small business impact assessments.

Another area is support. The small business bonus scheme, which we have already touched on, is a huge rates relief, particularly in areas where we are seeing businesses struggle on the high street. If the SBBS was to be taken away or changed in any way, that could close further doors on local high streets, which we do not want to see. It is about maintaining the support that is there—not cutting it or deprioritising it—but starting to refine the support that we provide for each area and how that looks in economic partnerships. Economic development is a huge thing.

At the FSB, we have development managers who work across different regions of Scotland, and we continually hear that the businesses in their area all have very different issues. If Clackmannanshire Council has shut facilities on its high street or put in parking charges, that will be a problem for that area alone. We need to make sure that we are aware of what different measures local authorities are putting in in their local areas, to ensure that we are not causing a competitive disadvantage or a postcode lottery when it comes to whether a high street will survive.

John Mason: I will start with hospitality. Ms Maclean indicated that the sector is struggling. Does the situation vary geographically? It seems to me that, in Edinburgh, hotel prices are quite high, which indicates that there is a lot of demand. Last September, I could fairly easily get a hotel for a night for less than £100. I could not find one this September for less than £100, and some of them are not fancy hotels. Is the situation patchy around the country? I presume that we do not need to support hotels in Edinburgh.

Louise Maclean: We are not seeing geographical variation. There are so many different ways in which a business will be profitable in hospitality. The SHG has venues in Aberdeen, St Andrews, Glasgow and Edinburgh; bizarrely, our most successful venues just now are in Glasgow. Edinburgh is very hard to operate in—there are a lot of hotels. I can only speak for the SHG; we have seen rates go up, although we have seen occupancy drop. We are seeing trade at the weekends: desired forecast take for a week is all coming in at the weekend and there is very little occupancy during the week.

John Mason: Would a hotel prefer to have me not stay than to have me take a lower-priced room?

Louise Maclean: No; we would love you to stay on a Monday, when there is—

John Mason: I stay on Tuesdays and Wednesdays, and it still costs more than £100.

Louise Maclean: I think that £100 is pretty fair.

John Mason: I have just booked in Aberdeen at £60.

Louise Maclean: Great! There are huge differences between different places. When the oil and gas sector was flying, it was really expensive to stay in Aberdeen. It is down to demand. You are absolutely right that rates in Edinburgh have gone up, but that does not correlate directly with profitability, I am afraid.

John Mason: Rates going up is much more to do with inflation.

I will move on. Mr Begbie suggested that higher taxes are perhaps discouraging younger people from coming here. You also said that infrastructure here could be improved, by which I assume you mean trams, trains and things like that. How do we square that circle? The obvious way to improve infrastructure is to put more tax into it, but that puts people off. What is your thinking?

Sandy Begbie: That is not necessarily the case. Infrastructure is a long-term investment. I am not familiar with reserved and devolved powers in detail, but the pension industry and others would quite gladly look at longer-term investments over 20 or 30 years, whether through bonds or some other vehicle to support infrastructure investment. Therefore, it is about attracting capital to infrastructure projects. That is a live discussion; it is important that we have that conversation. As I said earlier, capital is not a challenge. If there is a compelling proposition—an investable project—whether that is around the just transition, infrastructure or whatever, the capital will come, so it is not a tax issue.

John Mason: Would that involve going down the private finance initiative route? We pay a lot more in the long run in that way—if the capital does not come from tax.

Sandy Begbie: I would say that that was not necessarily the case. Let us take the example of Edinburgh airport, which is a privately owned asset. Arguably, it is at capacity, and it is an important gateway—as Glasgow airport is. There are already privately owned assets that need to attract investment. Some of that could be public investment, but some of it could be private.

John Mason: Let us take that example. What is preventing Edinburgh airport from expanding?

Sandy Begbie: I suspect that planning and other things, including environmental impacts, are probably preventing Edinburgh airport from expanding. That is a much broader canvas. I am just making the point that there are privately owned assets that will attract private capital, and public projects that will attract private capital. You are right that, in order to attract private capital for a publicly owned asset, there will need to be a return for that money at some point, because the money could go anywhere in the world.

John Mason: I think that it was suggested in one of the papers that we should have a discussion on tax and spending. I very much agree that we should because there has been public thinking—in Scotland and the UK—that we want lower taxes and better public services, and I feel that there is a tension there. Is it possible to have that kind of debate with the wider public sector, or even your sector?

Sandy Begbie: Yes—we need to have that debate. One thing that we have not touched on is the question of tax base versus tax take. The convener asked earlier about the challenge in the public finances. We have costs and revenue, and in the medium to long term that revenue line needs to come from increasing the size of the tax base. We have opportunities in Scotland, through our growth industries, to have well-paid and highly skilled jobs that will pay more tax and which will then be able to fund public services. The secondary economy, including hospitality, should benefit, on the back of that.

There are lots of examples around the world of economies and cities where that is the case. I have experience of Melbourne because my youngest daughter is there at the moment. She works in hospitality and is paid double what we pay in Scotland, because it has a higher-waged and higher-skilled economy. It is possible to do that.

We need to look at ways to increase the size of the tax base, which is what we have always called for, rather than the tax take, necessarily.

John Mason: Can you explain what you mean by "tax base", for those who do not understand the term?

Sandy Begbie: It is about having more people paying. As I understand it, the average wage in Scotland is about £29,000. As an industry, we pay an average wage of just over £40,000. If we have industries that are paying higher than the average wage, adding more jobs that pay above the average wage will increase the size of the tax base in numbers, but also in actual financial take.

John Mason: Ms Cook, on the idea of having a debate about tax, would small businesses prefer to pay more tax and rates and get better road surfaces, street lighting and hospitals and more police, or would they prefer to drop domestic rates and other tax and have poorer services? Is that a debate that we can have?

12:00

Rachel Cook: It is certainly a debate that we should be having. We cry out all the time for Government to engage with businesses. We want Government and local authorities to speak directly to SMEs to understand what they want and where they want it.

As the FSB, we see only a snippet, but with the visitor levy, for example, businesses are happy for that to come in. When we asked what they want the money from that to be spent on, most of them said infrastructure. Businesses are happy for a visitor levy to be introduced, as long as it does not discourage tourism. A lot of the statistics and the data suggested that it would not. We want to ensure that that money is not simply put towards declining local authority budgets for authorities to spend on other things. We want a direct correlation between how that money is spent and the impact that it has on businesses—we want it to make a difference for businesses, in their area.

We know that local authorities are struggling right now. If a visitor levy is introduced, we do not want the funds from it to be used to help with local authorities' debt, or any other uses to which local authorities could put it. We want it to be ring fenced so that it has the impact that we want it to have, which we know is what the Visitor Levy (Scotland) Bill seeks to do. We encourage that, because our members want the money to be spent on better infrastructure and better facilities.

As I have mentioned, there are geographical differences; what is needed in one council area might not be needed in another. Road maintenance is more an issue for rural businesses; the same will not necessarily be the case in all council areas. We do not know exactly what businesses would like, but they want a direct correlation between spending and its impact on them, so that if taxes are put in place, they see value for their money.

John Mason: Is that your view, too, Ms Maclean?

Louise Maclean: Yes. I am broadly supportive of the visitor levy, as long as it is spent in the right way. I would love it to be spent on anything to do with enhancing the public realm or enhancing infrastructure. That makes sense to me.

John Mason: What is your view on the wider issue of a debate about whether we want Scotland to be a country with higher taxes and better public services or lower taxes and poorer public services?

Louise Maclean: Debate is healthy, so that would be absolutely fantastic: the more engagement, the better. That sounds like quite a grown-up way of approaching things.

John Mason: That is good.

The committee also looks at public sector reform. It has been suggested that there are too many public bodies and that we have a cluttered landscape. Are there too many public bodies? Is the landscape too cluttered? I put that to each of you. Obviously, your answers will reflect the sectors that you are representing.

Sandy Begbie: Yes. I wear a variety of hats in this space. I am chair of the developing the young workforce employers forum and the young person's guarantee implementation group. The public sector landscape is unbelievably complicated.

John Mason: Would you like to suggest one or two bodies that we could drop?

Sandy Begbie: I could give you a list. In all seriousness, let us take the example of development or enterprise agencies, of which we have three in Scotland. We have a population of 5.7 million people. As I always say, in population terms, we are a medium-sized Chinese city, so we do not need that level of oversight and involvement. We also have 32 local authorities. We do not need 32 local authorities, although I realise that no one in this room would want to take on the task of reducing that number.

We have layer upon layer of complexity in Scotland. I think that public sector reform must be part of the process, in addition to asking how we can grow the economy sustainably and in a way that progresses what the Government is talking about with regard to having a wellbeing economy, a just transition and so on. We need to take a holistic approach, and public sector reform must be part of that.

John Mason: Ms Maclean?

Louise Maclean: What he said.

John Mason: You agree with Sandy Begbie.

Louise Maclean: Yes. It is not an issue that I have ever considered, but anything that could take away the complexity of doing business in Scotland would definitely be appreciated.

John Mason: Earlier, you gave the example that your business has to deal with different councils with different rules. On the other hand, people would say that the situation in the Highlands is different from the situations in Edinburgh and Aberdeen.

Louise Maclean: I can speak only about our experience during the pandemic. We had a really hard time. I cannot even remember what the issue was, but we had to say, "We operate in different areas, but it's the same company. Can we just have one person to talk to?" We are all in Scotland, albeit that there might be nuances across the country. It would definitely be appreciated if some layers of complexity could be removed.

John Mason: I do not want to go on too long on the topic. Some people have said that they had a good experience during the Covid pandemic because things happened more quickly and the public sector worked better, although other people have said that too many decisions were made without consultation. Did you have a good or bad experience through the pandemic?

Louise Maclean: It was bad.

John Mason: It was bad. Thank you.

Ms Cook, I will go back to the previous question. Is the public sector too cluttered?

Rachel Cook: It definitely is. We have spoken about the cluttered landscape of business support before today, and I am probably not about to say anything that my colleagues have not already said this morning. We want a one-door approach in business support. At the moment, things are cluttered and confusing, and there are more and more regulations. Short-term lets, the visitor levy, the deposit return scheme and the alcohol consultation have been mentioned. Those things get flagged up to our members. At times, such things act as a red flag, and our members panic because they do not know what impact they will have on their business. Messages are not always clear—they can be quite complicated and can come from various governing bodies and local authorities.

We agree that one size does not fit all, and we are always asking for simplicity. Therefore, when a visitor levy comes in, the system for that needs to be simple if—

John Mason: Would you prefer it to be a national thing rather than a local thing?

Rachel Cook: No—we agree that the levy should be local. We just want there to be some form of accountability and for processes to be simple. We argued for a national cap, for instance. That would allow for differences of approach—each local authority has its own approach in respect of what it wants to charge—while ensuring that there is no competitive disadvantage or adverse effects across neighbouring local authority areas.

It is a tricky balance to strike. I do not have the answers on how we ensure that we do not treat everything as a monolith and how we ensure flexibility in the system. It is difficult, but that is something that we could get better at, through discussion and public sector reform.

The Convener: We did not even get on to integration joint boards, community planning partnerships, and regional growth deals and city region deals.

I disagree with Mr Begbie; I certainly would take on such reforms. In Ayrshire, there are three councils and a health board. Why not have one structure? It is certainly my view that we should do that, and I have expressed it publicly over a number of years.

Jamie Halcro Johnston: I get the points that have been made, but you would have to go to people in the Highlands and Islands and say to them that more power needs to be in Edinburgh. Nobody wants to make that argument. In fact, in the Highlands, Inverness is seen as the great collector of power. It is really difficult to strike the balance.

I want to come back to Rachel Cook's point about the rural aspect. We have talked about business confidence being low across the UK, but your focus was on that being the case in Scotland. I wonder whether there are regional differences, as well.

I represent the Highlands and Islands. Small businesses are absolutely vital—they are the lifeblood of communities across the region. Is there a difference between business confidence there and that in other parts of Scotland?

Rachel Cook: As I said, we have found through our members that everybody is concerned about overall economic uncertainty and the cost of living crisis. There does not seem to be any geographical divergence in that regard. However, the Highlands is in itself an economy that relies heavily on the hospitality and accommodation sector. That sector bore the brunt of challenges during the pandemic—most businesses in that sector struggled through that time. They are still struggling, and spiralling energy costs have been a particularly prevalent issue for our members in the accommodation, hospitality and tourism sectors.

Rural businesses are experiencing lack of confidence because of the sector within which they work. Our survey has shown a lot of divergence. Rural businesses have more specific needs when it comes to things like the lack of appropriately skilled staff; finding available local workers is a real issue for rural businesses at the moment. Retaining and recruiting staff is becoming a real issue, as well. That issue is more dominant in the rural areas of Scotland than it is in the more urban central belt.

We need to understand that the business needs differ greatly in the Highlands and Islands. That is why the Scottish Government plans to introduce different immigration pilot schemes and so on for workers for rural areas. We are on board with that but, again, we need to make sure that that is explicitly what SMEs have in mind, and that the Government does not simply take a broad-brush approach to providing more workers up there. There will not be a magic bullet that will do that. An impact assessment must be carried out, so that any solution that is brought forward keeps rural small businesses in mind and at the forefront the entire time.

Jamie Halcro Johnston: You also talked about infrastructure. We have seen uncertainty about the A9 and it has been a disastrous summer for a lot of island communities because of the ferries. Even some of the mainland Highland ferries, such as the Corran ferry, have been out. I met people on the Ardnamurchan peninsula who are wondering whether they can keep their businesses going. How do you get the message across to Government at ministerial level—in order to influence budget decisions—that infrastructure, and particularly transport infrastructure, is vital?

Rachel Cook: It is a difficult challenge and, as you say, one that is niche to the area. When we carried out the transport chapter of our survey, many of the rural respondents mentioned that the ferry issues have been a huge problem for their business base. We have always argued that transport needs to be affordable, accessible and reliable. In its current format, from what our members tell us, that is not the case.

We are trying to ensure that infrastructure spend does not deprioritise the needs of SMEs. If capital spend is being put towards infrastructure planning, we need to make sure that it targets exactly the problems that we have, including the ferries, the A9 and other areas. As I said, it is very difficult to strike a balance between the monolithic approach and a flexible approach within the area's needs. However, we want capital spend to prioritise SMEs in order to boost innovation, business-based trade expansion and inward investment. If we do not ensure that capital spend takes the perspective of SMEs into account, we could risk losing things. We forget that the ferries matter to the small businesses in those areas and that that is why tourism comes. We will not be able to encourage tourism to areas if ferries are not running or are running only infrequently.

We want to see better spend on capital infrastructure. As Sandy Begbie has been saying, there is money in the capital budget, but we need it to be prioritised towards SMEs. We should not just throw out capital spend and hope that something sticks.

Jamie Halcro Johnston: Louise, for full transparency, I note that I was in one of your establishments only a week or so ago. Having been bought a gin and tonic, I feel slightly seen by your Pat Butcher comment. [*Laughter*.] The place was fantastic and it was very well looked after, but it was quieter than I would expect in Edinburgh on a Saturday evening. I know from speaking to other people in the sector that there is real pressure on our town centres and that our city centres are not as busy as they have been. There has been behavioural change among a lot of people.

Michelle Thomson and I were both on the Economy and Fair Work Committee, which produced a report recently on town centres. It was interesting to hear some of the proposed solutions and suggestions on what we need to be doing. The sector has dealt with a pandemic; there has been uncertainty about the deposit return scheme, and investment has been needed in relation to that; and legislation on other matters has been rolled out, such as the ultra-low emission zone in Glasgow.

How difficult is it for the sector to forward plan? Given the changes in approach—the UK Government is providing a discount for hospitality—how are you positioned compared with similar organisations in other parts of the UK?

Louise Maclean: Our forecasting does not just involve putting a finger in the air—we are a bit more scientific than that—but we are not forecasting any growth. In fact, in some areas, we are forecasting a decline in overall turnover. That is really hard to square away when we are run with an entrepreneurial focus. We have one eye on expansion, but it is nigh on impossible to see where that will come from just now. I do not want to say that it is all doom and gloom, but it really is far from great.

Consumer behaviours have undoubtedly changed. People are working from home and the culture has changed. Friday night in cities does not really happen any more, although we see slightly more people on a Thursday night. Lunches have changed, too: people either work from home or they bring their lunch in. It is about cash in pockets. We are trying to drive footfall to cover overheads. If someone will go to Pret A Manger and get a sandwich and a drink for £10, we have to think about what we can do in our venues to try to compete with that. It is not going to make us any money, but it will pay for the electricity, the staffing costs and the goods.

There is not a great deal of hope in the sector just now and a lot of the pressures are hard. The taxi situation is impossible. We are seeing people going out earlier and going home earlier because they need guaranteed transport. In the past, people might have gone out for dinner at 8 o'clock; we are now seeing a lot of people coming out at half past 6. It is heartbreaking to read the end-of-night reports that all say, "Died off at 10". We know that it is dying off at 10 because people want to plan to get a bus or a taxi home and they are not going to be able to do that later in the evening. During the pandemic, we lost loads of taxi drivers to other industries, and they have definitely not come back.

12:15

Jamie Halcro Johnston: You have said that, for the chain that you represent, Glasgow is actually okay at the moment, but for other areas it will be different.

Louise Maclean: Glasgow is an earlier city because it is not so much of a residential city; people tend to live in greater Glasgow. People in Glasgow have traditionally gone out earlier and gone home earlier, whereas Edinburgh had a much more thriving late-night economy. We have not touched on this topic today, but the late-night economy in Edinburgh is nothing like what it was.

Jamie Halcro Johnston: As a chain, you can probably recover over a longer period when there are bad nights in one venue. Do you worry for small independent pubs, bars and restaurants?

Louise Maclean: Yes. You mentioned Ardnamurchan, in the Highlands. My husband believes that a day spent out of Scotland is a day wasted, so we spent the whole of the summer holidaying in Scotland. We were in Aviemore and Ardnamurchan, and it was absolutely heartbreaking to see what is going on in Ardnamurchan. One of the big hotels does not let its rooms at all, and it serves food only from 10 o'clock until 6—customers will be asked to leave at 6 o'clock. They are running it as a family business. I went into another hotel and watched them turn away customers. There were French people asking, "Where do we eat?" The shops are shut—even the KeyStore is shut. The staff were saying, "There's nowhere to eat." Aviemore was exactly the same, and that was in the summer. We are lucky with the tourism and the footfall that we have in the cities, but rural hospitality businesses are in crisis.

Jamie Halcro Johnston: Thank you.

The Convener: I had an Ardnamurchan holiday back in 1998 or 1999 and it was exactly like that then. It is clearly an issue in that part of Scotland. The only thing that I could get to feed the kids was beans, chips and chicken nuggets, which was not what I wanted to feed them. That was a quarter of a century ago.

Michael Marra: I bet the kids loved it, though.

I want to ask the witnesses whether they feel that there is a coherent plan for growth in Scotland. The language of growth seems to be a bit more fashionable now, driven by the budget gap that we talked about earlier. Sandy Begbie made some points about how to grow the base. A lot of what some of you have said today feels quite defensive of what support there is. Is there a plan for growth from the Government?

Rachel Cook: Yes. As I said, we are quite excited to see the new deal for business come to fruition. We have struggled for a number of years to see that engagement with small businesses. We know that, during the pandemic, it was particularly hard to get the targeted support to the right people, and a lot of that was to do with the data being so poor. The creation of a new deal for business, the discussions around data and the setting up of a small business unit within the Government are all things that we want to get on board with. We think that those measures will help growth, because the discussions are being had with small businesses, which—to chuck another statistic in—make up 99 per cent of private sector enterprises in the economy and contribute a lot of money to it. They cannot go unnoticed and unrecognised.

It is important that those discussions are being had, and the creation of small business impact assessments is a standalone way to ensure that we are fully on board and that people can see where there are opportunities to mitigate risks and adverse effects, but also find out where there is room for growth. We have spoken about entrepreneurs, and young entrepreneurs in particular, and the ways that we can see to stimulate growth in those areas.

We are defensive in that we do not want anything to be taken away that would result in SMEs being deprioritised. We are grateful for what there currently is and we are aware of the difficult circumstances in which every Government across the UK is working because purse strings are tight.

We want to make sure that our members do not become deprioritised. When they are prioritised, we see better engagement from businesses and better schemes, policies and financial decisions that are directly linked to where we see growth. The new deal for business and the discussions about things such as the sustainability of Scotland’s finances give us an opportunity to do that.

Michael Marra: There are discussions, but I am not hearing much about actions or what the measures that will deliver growth actually look like.

Rachel Cook: At the moment, there is probably a lack of shovel-ready projects to be delivered into the economy that could spur growth immediately or in the short term. However, there are things such as the £15 million that is coming in. As we have discussed, that is not a lot of money, but it is something that we can work with to ensure that there is an injection of growth. There are more discussions to be had about what this means in practice on the ground. At the moment, everything is a wee bit vague and we do not have those shovel-ready projects. However, in going forward, we can start to understand those aspects. A big part of doing that will be tied to transparency in the budget numbers.

As we say in our submission, we need greater transparency about where the spending is going and where the links to spending are, and we need to know about comparable budgets over the years. We have said previously, as has Audit Scotland, that there are no comparable budget numbers. It is difficult to make budget submissions when we do not have a full picture to work with, so increasing transparency about spending would be a huge way of improving growth for SMEs.

Sandy Begbie: I would say, “Yes, but,” and that “but” is being talked about much more. There is an acceptance that sustainable economic growth is really important because it is the only way that we can pay for the public services that we want. The “but” refers to the policy decisions that will be needed to make growth happen.

We are at fault in this country because we try to keep everyone happy. We should look at economies around the world that perform strongly. An economy is like an organisational strategy, but bigger. What are we globally competitive at? Where can we drive growth? What are we going to focus on? We are guilty of spreading everything very thinly. We must be clear about what is actually going to drive the economy in the next five years. That is not to detract from our future industries, but we must look at what is going to move the dial on economic growth in the next few years. Public finances are being challenged today, so we need a way to turn that round.

Economic growth will benefit the whole economy if it happens sustainably, but the hard part will be to align the policies behind that. Education and skills are a good example. We have all the components, but the pipeline of people coming out of colleges, universities and apprenticeships is not aligned with the immediate needs of the economy and far less with its needs in the next two, three or four years. Lots of industries are crying out for skilled talent but they are being held back when we are producing too many people who may not ultimately end up in employment. There is a real opportunity to get people with the right skills into well-paid jobs, but we need change. That is just one example.

Louise Maclean: All our members are desperate for growth, which is really healthy. There is a strong desire to grow and not to contract, which shows that there is still an appetite. There is real talent out there and people want their businesses to grow. The opportunities for growth are slightly limited just now and people's finance directors will be in the background saying, "Really? Are you sure you want to do that?" That is where the challenge is. It is a question of head versus heart: the head is saying, "Stop, stop, stop!" but the heart is saying, "I'm really keen." A bit more balance would be massively appreciated and it would stimulate growth.

The Convener: I thank our witnesses for their contributions. We have run a wee bit over our time, but that is testament to the evidence that we have heard today. We will continue taking evidence on the sustainability of Scotland's finances at our next meeting, when we will hear from the Deputy First Minister and Cabinet Secretary for Finance.

That concludes the public part of today's meeting. The next item on our agenda, which we will discuss in private, is consideration of our work programme. We will move into private session and there will be a two minute break to allow our witnesses to leave.

12:24

Meeting continued in private until 12:34.

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