OFFICIAL REPORT
AITHISG OIFIGEIL

Economy and Fair Work Committee

Wednesday 31 January 2024

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The Scottish Parliament
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ECONOMY AND FAIR WORK COMMITTEE
4th Meeting 2024, Session 6

CONVENER

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

DEPUTY CONVENER

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

COMMITTEE MEMBERS

*Maggie Chapman (North East Scotland) (Green)
*Murdo Fraser (Mid Scotland and Fife) (Con)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Colin Smyth (South Scotland) (Lab)
*Kevin Stewart (Aberdeen Central) (SNP)
*Evelyn Tweed (Stirling) (SNP)
*Brian Whittle (South Scotland) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Tom Arthur (Minister for Community Wealth and Public Finance)
Colin Cook (Scottish Government)
Neil Gray (Cabinet Secretary for Wellbeing Economy, Fair Work and Energy)
Aidan Grisewood (Scottish Government)
Alasdair Hamilton (Scottish Government)
Kathy Johnston (Scottish Government)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy and Fair Work Committee

Wednesday 31 January 2024

[The Convener opened the meeting at 09:31]

Decision on Taking Business in Private

The Convener (Claire Baker): Good morning, and welcome to the fourth meeting in 2024 of the Economy and Fair Work Committee. Our first item of business is a decision on whether to take items 4, 5 and 6 in private. Are members content to take those items in private?

Members *indicated agreement.*

Trade (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) Bill

The Convener: Our second item of business is consideration of the legislative consent memorandum on the Trade (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) Bill. I welcome Tom Arthur, Minister for Community Wealth and Public Finance, and Alasdair Hamilton, procurement policy portfolio manager with the Scottish Government. I invite the minister to make a brief opening statement before I take any questions from members.

The Minister for Community Wealth and Public Finance (Tom Arthur): Thank you, convener, and good morning, committee.

The United Kingdom bill makes provisions in three areas—public procurement, technical barriers to trade and intellectual property—where legislative intervention is needed to give effect to the terms of the UK's accession to the comprehensive and progressive agreement for trans-Pacific partnership. Public procurement is a devolved matter, and the implementation of international agreements is devolved to the extent that it relates to procurement. The bill therefore triggers the consent process in respect of the procurement provisions that apply to Scotland. The amendments to Scottish procurement regulations are minor and technical in nature, relating to contracts that are awarded under international rules and contract award notices.

In contrast to the Trade (Australia and New Zealand) Act 2023, which conferred delegated powers on UK ministers for the purpose of implementing the procurement chapters of those trade agreements, and to which the Scottish Parliament withheld its consent, in this bill the UK Government has agreed to make necessary provision to amend the Scottish regulations in the bill. We welcome that change of approach, which affords the Scottish Parliament the proper ability to scrutinise the proposals.

We recommend that consent be given to the bill. My officials will continue to work with UK Government officials to agree a pragmatic approach to preparations for commencement of the provisions of the bill that relate to Scotland.

The Convener: Thank you. I will take questions from members.

Murdo Fraser (Mid Scotland and Fife) (Con): Good morning, minister. I remind members of my entry in the register of interests and my connection to the Scotch Whisky Association.

In that tone, minister, how does the Scottish Government view the opportunities from the CPTPP, specifically the opportunities for growing exports of Scotch whisky to important and developing markets? How will the liberalisation of trade and potential reduction in tariffs in countries such as Malaysia, which are currently an important market for Scotch whisky but with very high tariffs, benefit the Scottish economy?

Tom Arthur: We welcome the opportunities that the agreement will afford. The analysis that has been provided suggests that, overall, the impact on UK economic growth over the next couple of decades will be relatively minor, but any opportunities that are afforded for key Scottish industries, such as the Scotch whisky industry, are, of course, welcomed.

I am conscious that my colleagues the Cabinet Secretary for Rural Affairs, Land Reform and Islands and the Minister for Small Business, Innovation, Tourism and Trade have written to committees setting out in some detail the work that they have undertaken in engagement with the UK Government on the broader policy intent of the agreement.

The Convener: The minister referred to correspondence that we have had from the rural affairs secretary, who has raised concerns that there would be potential competition from producers in countries with lower animal welfare standards. Can the minister speak to that this morning? I appreciate that it was the rural affairs secretary who contacted us about that issue, but if the Scottish Government is going to monitor the impact of the agreement on Scottish producers, is that still an area of concern?

Tom Arthur: We will of course continue to seek to engage constructively with the UK Government on the implementation of the agreement, and we continue to engage with stakeholders. I am sure that the convener will appreciate that it is my colleague the cabinet secretary who leads on those particular matters.

Maggie Chapman (North East Scotland) (Green): Thank you very much for that, minister. I know that you say that the relationship with or interest of Scotland is mainly around procurement, but I am curious to know whether you have had any discussions with the UK Government about the investor-state dispute settlement provisions in the bill. The UK Government has already agreed to exclude ISDS clauses from any future trade agreement with Canada. Have you had those discussions and received any such assurances with regard to this agreement?

Tom Arthur: The position on the engagement that the Scottish Government has had with the UK Government is broadly set out in the correspondence that I referred to. Clearly, the matters that are before us today—the issues that triggered the legislative consent process—are fairly narrow and technical and relate to the devolved aspects of procurement.

Maggie Chapman: Do you not see that there is a potential impact on some of the broader policy work that we are trying to achieve in Scotland if ISDS clauses remain in place and foreign investors can then sue the Scottish Government over certain policy proposals that it enacts?

Tom Arthur: I recognise that there will be a range of views on the provisions of any trade agreement that the UK enters into. I recognise that the Parliament will have and take its opportunities to express its views on these matters. Ultimately, the decision on whether to enter into such agreements is a matter for the UK Government. We obviously appreciate and want to strengthen the opportunities that we are afforded for engagement with the UK Government, but the matter before us this morning is about the relatively narrow and technical aspects of implementation through the act and how they trigger legislative consent with regard to procurement.

Maggie Chapman: I understand that, although I suppose that it can be seen as broader support for issues that could trip up the Scottish Government in the future. However, I appreciate that I am not going to get any further on that.

Colin Beattie (Midlothian North and Musselburgh) (SNP): The Cabinet Secretary for Rural Affairs, Land Reform and Islands raised concern about the lack of a formal role for the Scottish Parliament in scrutinising free trade agreements generally. Although international relations is reserved, such agreements, in practice, impact on the competence of devolved Administrations in a number of areas. How would the Scottish Government like to see any future agreements progressed to improve scrutiny?

Tom Arthur: I am conscious that that goes beyond my remit on public procurement, and I recognise that, when the committee has previously considered LCMs regarding the ratification of trade agreements, its concern has primarily been with the contents of those LCMs. The Scottish Government's position, in its constitutional aspirations and the policy position as set out in "Scotland's Vision for Trade", which was published at the start of 2021, is well understood. Our views are clearly set out.

With regard to how things operate at the moment, we always seek the maximum engagement possible with the UK Government to ensure that Scottish interests are represented, and our endeavours to that effect have been set out in the correspondence that the committee received and that I referred to earlier.

Colin Beattie: I will leave it there.

The Convener: I have a technical question about the LCM. The Scottish Government says that the amendments

"do amount to material divergence from EU law, however they are very minor",

and it recommends giving consent to the bill. One of the regulations involves the way in which a contract is advertised. Currently, there is an option to include the value of the successful tender, or the values of the highest and lowest tenders. To comply with the terms of CPTPP membership, the option to include the highest and lowest tenders instead of the actual contract value will be removed. Does that have any impact, or is there any significance to that change?

Tom Arthur: These are, of course, minor changes that we are required to make, given the requirement to implement this particular agreement. On the detail and any specifics, I ask Alasdair Hamilton whether he wants to comment.

Alasdair Hamilton (Scottish Government): That relates to when a contract has been awarded rather than the advertising of a contract competition. Once a contract has been awarded, an authority must publish what is known as a contract award notice. Currently, our regulations, which transpose the European Union directives, allow either for that notice to contain the actual value of the contract awarded or the highest and lowest tenders received. That is a choice that authorities have at the moment. Quite simply, the CPTPP does not allow that choice. It requires that only the actual value awarded be included. That is, as much as anything, a reflection of the fact that the agreement has evolved in a different space with different members. We do not anticipate any significant impact for authorities from it.

The Convener: So it removes the ability to publish either of the figures.

Alasdair Hamilton: Yes—it just removes that choice.

The Convener: As there are no more questions, that brings us to the end of the session. Thank you for attending this morning, minister.

I will suspend the meeting to allow for a change of witnesses.

09:40

Meeting suspended.

09:43

On resuming—

Budget Scrutiny 2024-25

The Convener: Our next item of business is an evidence session on the Scottish Government's 2024-25 budget, which was published on 19 December 2023. The Finance and Public Administration Committee's chamber debate on the budget will take place tomorrow.

I welcome Neil Gray, Cabinet Secretary for Wellbeing Economy, Fair Work and Energy. He is joined by Colin Cook, director of economic development; Aidan Grisewood, director of economic strategy; and Kathy Johnston, deputy director, economic analysis and head of economist profession, all from the Scottish Government.

As always, members and witnesses should keep questions and answers as concise as possible. I invite Neil Gray to make an opening statement.

Neil Gray (Cabinet Secretary for Wellbeing Economy, Fair Work and Energy): Good morning, convener and colleagues. Thank you very much for inviting me to be here. I welcome the opportunity to discuss the wellbeing economy, fair work and energy portfolio spending plans as set out in the budget for 2024-25.

You will have heard the Deputy First Minister speak about the challenging context for the recent budget, as well as the many opportunities that lie ahead. The budget underlines our commitment to progressing the First Minister's three missions of equality, opportunity and community. Our focus on delivering a fair, green and growing economy is underpinned by investment in this portfolio and wider investment across Government of £5 billion that will make an economic difference.

09:45

We are committed to green growth. We will scale up renewable energy, with investment of £67 million as part of our commitment to provide up to £500 million to anchor a new offshore wind supply chain in Scotland. Combined with funding via enterprise agencies and the Scottish National Investment Bank, the total support for offshore wind in Scotland for 2024-25 is £87 million. That investment will stimulate and support the private investment that is critical to the growth of the sector. That is one of the greatest areas for us to achieve growth, transform our economy and leverage private capital, as was identified by the First Minister's investor panel. To help to realise that, we will, this year, set out a green industrial strategy to ensure that we seize the economic opportunities of the transition to net zero.

The budget is focused on funding that will have the biggest economic impact possible. It will increase investment in digital connectivity by more than 50 per cent, and we will expand our Techscaler programme, progress the implementation of the national innovation strategy and begin delivery of the “Pathways: A New Approach for Women in Entrepreneurship” report to diversify and encourage more entrepreneurship, particularly to see more women start and scale their own business. Our Techscaler and digital roll-out programmes are examples of our strong progress in delivering our national strategy for economic transformation ambitions.

I wrote to you last week advising that the national strategy for economic transformation is being refreshed so that it remains fit for purpose in a changing landscape and is focused on delivering as fast as possible in the areas in which we have a competitive advantage. We continue to support business, including by freezing the basic property rate—delivering the lowest such rate in the UK for the sixth year in a row—and providing a package of reliefs worth an estimated £685 million. The small business bonus scheme remains the most generous of its kind in the UK—it takes an estimated 100,000 business properties out of rates altogether—and, across all elements, 95 per cent of businesses in Scotland are estimated to be paying lower rates than those anywhere else in the UK.

Our missions and values are the guiding principles of the budget, and that is clear through the actions that we are taking to promote a fair economy, including recognising the critical role that employability has in achieving the First Minister’s three missions. I believe that, despite the challenging fiscal context that we are faced with, we have developed a package that will help to deliver a fair, green and growing wellbeing economy.

Thank you, and I look forward to the discussion that we have before us.

The Convener: Thank you, cabinet secretary. You have outlined areas of investment and spoken about energy policy. The wellbeing economy and fair work budget will reduce by 8 per cent in real terms compared with the current year. The committee recognises the difficult financial decisions that the Government has to make but, in this portfolio, we see a reduction. The Scottish Fiscal Commission in looking at the longer-term prospects for the Scottish economy, still sees subdued long-term gross domestic product growth and lack of productivity growth. We also have population challenges that come from an ageing population.

How does an 8 per cent cut to the budget align with the ways in which we are trying to address the long-term challenges that Scotland faces?

Neil Gray: I recognise what you have just said. We have been faced with a real-terms cut to our budget—the block grant allocation is down, as confirmed by the Scottish Fiscal Commission—so we have had to take very challenging decisions. However, as I said in my introduction, we are focused on areas where we think that we can generate the most economic activity and see the economic transformation developing a green and growing wellbeing economy. That is where the decisions that are relevant for my portfolio have been focused.

The SFC’s analysis of our economic performance is fair. Of course, we are tied to a UK economy that is underperforming. When we compare ourselves with many of our European neighbours, we see that we have lower GDP growth, lower productivity and lower fairness than those countries and that they have lower rates of poverty. My aspiration is for us to match those countries.

The GDP figures out this morning show that, for the most recent quarter for which figures are available—quarter 3 of 2023—we had higher GDP growth than elsewhere in the UK, although I accept that that is still low growth and is not in the areas where we want to see it. We have also seen over the recent period that the Scottish productivity rate is growing faster than that in the rest of the UK, although admittedly it is still slow, and we have lower rates of unemployment.

In the areas where we can make a difference, we are investing to do so and seeing results off the back of that. The problem is that we do not have the full levers of control over the wider economy, and we are tied to a UK economy that is grossly underperforming.

The Convener: You might be aware that, last week, people from the retail, hospitality and leisure industries were in front of the committee. One area for which the Scottish Government has responsibility is business rates. Although the representatives of those industries raised concerns about other factors for which the Scottish Government does not have responsibility, such as energy costs, they were pretty robust in their criticism of the Scottish Government in relation to the consequentials that came to us because of the 75 per cent discount on business rates from the UK Government. Barnett consequentials totalling £260 million came to the Scottish Government, but over those two years, it has not introduced a similar or equivalent scheme. My understanding is that Wales has, although its scheme is not as generous as that in the UK, but it has used some of the money to do that.

You might have heard the criticisms last week about a lack of engagement from the Government and the lack of discussion about how those consequentials could be targeted at that sector. Although you are right that there is increased productivity and activity in some areas, the pressure on that sector is eating into profits. Although it is seen as a busy sector that is recovering from the pandemic, it is difficult for it to invest in its businesses and in skills because of the extreme margins in which it operates.

I do not know whether you want to respond to the comments that were made last week about business rates and why the Government is not looking at some kind of business relief for that sector that would bring it in line with those in the rest of the UK.

Neil Gray: Yes, I saw that evidence. I more than understand the challenges that the retail, hospitality and leisure sectors face, not least because the Deputy First Minister, Tom Arthur and I met industry representatives last week to discuss them.

The Deputy First Minister set out the challenge that is before us in this budget, which is that, if we passed on the rates relief consequentials that came from the UK Government's decision, not only would those consequentials not fully cover a similar discount in Scotland but we would have no potential to further increase investment in our national health service and other public services. A difficult decision was taken, and the decision that was—

The Convener: I accept that, but it is £260 million. In the scheme of things, that is not going to solve the challenges that the NHS faces. I am not arguing that we should replicate the UK scheme, but we should give some kind of relief to the sector. As I said, Wales has gone for a different model. The Fraser of Allander Institute has said that £260 million is not enough to cover an equivalent scheme, but there seems to have been a lack of discussion or consideration about what can be done to provide some relief to the sector.

Neil Gray: We have provided relief and have acknowledged the challenge in our island communities. We have provided 100 per cent relief to island community businesses in that sector, in acknowledgement of the fact that there are challenges. If we could have done more, we would have done so. The decision that we have taken is evidenced by the fact that, in England, there is a real-terms cut to the NHS budget. At a time of challenge for our NHS, when we are recovering from the pandemic, the right decision was taken.

That is not to say that we are not looking at all that we can do and at other opportunities that might be available. That was part of the reason for the meeting that Tom Arthur, the Deputy First Minister and I had with industry representatives last week. It was very constructive, and further engagements are planned ahead of the UK budget in order to look at what relief and support might be able to be provided in devolved and reserved areas. I absolutely appreciate, and I articulated to them my understanding of, the challenges that the industry faces. If we had had the finance available to provide alternative support arrangements, we would clearly have considered that, but, at that stage, the fiscal context was such that we were not able to do that.

The Convener: Last year, at the time of the budget, the committee raised similar concerns about the tourism and hospitality sector, and we received a similar response. It was said that there was no additional resource for that sector but that, if there were any flexibilities in-year, additional support for the sector would be considered. That did not materialise to any extent. Can you give us a clear indication today that you hear the sector's concerns and that, if there were to be some flexibility, you would engage with the sector in order to consider how it could be supported?

Neil Gray: Yes. In relation to last year's budget, the on-going inflation-related pressures meant that we had to make in-year savings, so there were no opportunities for in-year flexibility. Of course, through this budget process and as we go forward, we will continue to consider industry representations, as we did last week. We have committed to further engagement with the industry on that basis.

The UK Government has not committed to providing rates relief beyond this year, so there will be a cliff-edge moment. It will be interesting to see what plans there are to provide continued support to the industry. We are looking to provide long-term sustainable support by considering the option of long-term rates reform that will assist the sector, as opposed to a one-off support package or a package for only a couple of years.

Murdo Fraser: Good morning, cabinet secretary and officials. I want to follow up on some of the lines of questioning from the convener. According to the Scottish Parliament information centre's briefing, the Scottish Government's overall budget for the coming year has increased in cash terms by 4.5 per cent and in real terms by 2.8 per cent on the previous year's budget. Do you agree with those figures?

Neil Gray: I thank Murdo Fraser for pointing out the difference that is made by our tax decisions in Scotland—tax decisions that he has opposed. Our block grant has been cut in real terms by the UK Government, so we are having to take decisions in Scotland to try to ameliorate the impact that austerity has had. Our budget is therefore up in real terms, but only because of the tax decisions that we have taken.

Murdo Fraser: I am glad that we agree that your budget is up in real terms by 2.8 per cent—

Neil Gray: That is because of the tax decisions that we have taken, which Mr Fraser opposed.

Murdo Fraser: In that context, with the overall budget up, this is about the choices that the Government is making. As the convener pointed out, the budget for your Cabinet portfolio has been cut by 8.3 per cent in real terms. In real terms, the budget for tourism is down by 12.3 per cent, the budget for the Scottish National Investment Bank is down by 29.2 per cent, the budget for employability is down by 24.2 per cent and the budget for enterprise, trade and investment is down by 16.7 per cent. Overall, there are cuts of £118 million in cash terms against a backdrop of the overall budget having increased. What does that tell us about the priority that the Government gives to growing the economy?

Neil Gray: As I said, we are spending £5 billion across the Government to support the economy. Unlike the UK Government, we have taken the decision to prioritise public services. We cannot have a strong economy without a strong society. The two are mutually dependent, so it is incredibly important that we have strong public services at a time when our NHS is recovering from the pandemic and that we have a healthy workforce that is available to our businesses and employers. We have looked to strike a balance between making difficult decisions in order to find savings and investing in public services, including by giving our NHS a real-terms increase in funding.

However, I recognise that this is a challenging time for our business community and for others, not just because of this budget but because of 13 and a half years of UK Government austerity, which has meant that the resilience of the economy and our public sector is much reduced. We are doing what we can to ensure that our public services and our wider economy are supported. That is why we are making investments in the likes of the Techscaler network. We are looking to implement the recommendations in the "Pathways: A New Approach for Women in Entrepreneurship" report from Mark Logan and Ana Stewart in order to see greater diversity in entrepreneurship and more women start and scale up businesses. We are investing increased amounts in green energy in order to establish a supply chain that is rooted in Scotland. We are making decisions that, I hope, will lead to the transformation and further growth of our economy.

10:00

Murdo Fraser: You have just told me that the Government has chosen to prioritise other areas, not the economy. In fact, the SPICe briefing confirms that. There are eight portfolios in which spending has increased and only three in which spending has been cut in real terms, including the wellbeing economy, fair work and energy portfolio, which is yours. Do you not think that your job in Cabinet is to fight for the Scottish economy and a fair share of the cake? You are clearly not doing a very good job.

Neil Gray: I thank Murdo Fraser for that personal slight. As I am sure the Deputy First Minister will attest, I have argued in Cabinet and in the budget rounds for investment in areas of priority that will lead to economic activity, growth and transformation. I believe that we have achieved that.

Of course, it is a challenging budget, but that is the case across the board. There is no area where we find an easy situation or a situation of plenty. As I said, that is down to the fact that we have endured 13 and a half years of UK Government austerity and have had a 1.2 per cent real-terms cut to our block grant in this year's budget. We have to make difficult choices, including on taxation, to try to ameliorate that. It should not be for the Scottish Government to continue to mitigate the mistakes that have been made and the trouble that has been caused by UK Government decisions. We should look to seize the opportunities that are available to us. Sadly, we do not have that luxury at present.

Murdo Fraser: Your Government is choosing to deliberately cut enterprise aspects of the budget and to prioritise other areas. You are making that choice, and it is having consequences. The convener referred to evidence that we heard last week from the hospitality sector. I do not know whether you have seen the survey by the Scottish Licensed Trade Association that was published this morning. In a survey of more than 500 of its members, 96 per cent of respondents feel that the Scottish Government is out of touch with the business community. How is the new deal for business going?

Neil Gray: Mr Fraser mentioned the support that we give to enterprise agencies. Of course, enterprise agencies do not exist in other parts of the UK. We have an enterprise agency network in Scotland because we value the support that we can give to our business community. That is not available elsewhere in the UK.

Murdo Fraser: [*Inaudible*.]—for example.

Neil Gray: Of course, I recognise and am sad about the survey from the Scottish Licensed Trade Association that was published this morning. That is precisely why the First Minister made it an early priority to establish the new deal for business. It will take time to rebuild our relationship with the business community. That has been one of my top priorities since coming into office, and I do not take it for granted. I will work to regain and re-earn that trust during my time in office, and I will ensure that the relationship between business and the Government is strong. We want to give sight of policy decisions as early as possible, support the business community to have the best possible trading landscape in which to operate—which is why we have provided the rates relief package—and ensure that its representations on issues that matter to it are heard.

Of course, we will not agree on everything; we will disagree. That is the nature of the relationship between business and the Government. However, when there is disagreement, I want to at least ensure that the business community understands why we are taking decisions and that we continue to advocate for it and on its behalf in relation to decisions that are taken for us by the UK Government.

Murdo Fraser: It does not sound as though you agree with the business community on very much, and it is not very impressed so far.

Let me ask you about income tax divergence. Last week, we head evidence from those in the hospitality sector that, given the impact of income tax divergence, they now have to pay higher salaries to attract people to Scotland because tax rates here are higher than they are south of the border. I have heard many times from people in business, particularly those in the finance sector, that they now struggle to encourage people to relocate to Scotland because of the tax differential. What assessment have you made of the impact that the income tax differential will have on the long-term growth of the Scottish economy?

Neil Gray: Obviously, we take that into consideration whenever we take a decision on tax, and the Scottish Fiscal Commission assesses likely behavioural changes. We do everything that we can to make sure that there is a balance. Of course, there will be the potential for behavioural change, but I have not seen evidence of that. There is anecdotal evidence, but there is no direct evidence. Our decisions have allowed us to ensure that we have opportunities to invest in our public services. The premise of Mr Fraser's first question was that a larger budget is available to the Scottish Government. The whole reason for that is down to the tax decisions that we have taken.

The discussions that I had last week with the hospitality industry pointed to much wider challenges with recruitment, including the direct impact of Brexit, with the loss of access to labour—people moving away from and people not coming to work in Scotland—and the stringent UK Government immigration system, which does not support the needs of the Scottish economy. I am willing to work with people in the industry. I gave a commitment to, in my representations to the UK Government ahead of its budget, provide evidence of how they are struggling to recruit internationally, and I will continue to work with them in that regard.

In relation to migration within the UK, for every year of the past 20 years, there has been net inward migration from the rest of the UK into Scotland. I am not complacent about that, but it points to the fact that Scotland is, indeed, a very attractive place to live, work and do business.

Murdo Fraser: Net immigration into the UK is at record high levels, but Scotland does worse than every part of England, apart from the north-west, at attracting new immigrants to live and work here. Clearly, there is an issue that needs to be addressed.

Neil Gray: The UK's migration system works for one part of the UK, not for the whole of the UK. We need a much more flexible migration system that is tailored to the needs of the composite parts of the UK. Short of independence, that would be the right thing to do. It is possible in Canada, and it has been possible for us to have Scotland-only elements of the UK migration system, such as the supersponsor scheme for displaced Ukrainians, for which I previously had responsibility.

It blows my mind—it beggars belief—that the UK Government continues to have a one-size-fits-all migration system that means that Scotland is not able to attract the people from around the world whom we want to attract. Once again, I appeal to the UK Government to accept proposals such as the rural visa pilot, which has been proposed and is supported not just by the Scottish Government but by other parts of the UK as a way of ensuring that we have a flexible migration system that responds to the economic needs of the communities where we need to ensure that we have suitable labour market access and that our public services and businesses continue to thrive.

Murdo Fraser: Perhaps immigrants are not coming here because they do not see the economic opportunities and do not see a Government that prioritises the economy, as we have just seen from your budget.

I have no more questions.

Neil Gray: That is belied by the fact that we have record levels of foreign direct investment and a foreign direct investment growth rate that outstrips that for the rest of the UK and for Europe. I repeat that, in every year for the past 20 years, Scotland has had net inward migration from the rest of the UK. Perhaps some of the people who arrive in other parts of the UK choose to move to Scotland.

The Convener: We will make some progress. Maggie Chapman is next, to be followed by Kevin Stewart.

Maggie Chapman: Good morning, cabinet secretary. Thank you for being here and for what you have said so far.

You talked about income tax. Just this morning, at a briefing from the Scottish Fiscal Commission, we heard that we have over £700 million more to spend, thanks to our income tax proposal. Murdo Fraser might be interested in looking at what the Scottish Fiscal Commission says on that point specifically. It is to invest in our public services.

I will focus on employability and workforce development. The SPICe briefing and other documentation that we have received show that employability funding has fallen in the proposed budget; we are closing fair start Scotland to new referrals; and there has been a reduction in the fair work and labour strategy line because of the closure of the workplace equality fund and the disability public social partnership. What assessments have you made of the impact of those reductions on economic and equality outcomes?

Neil Gray: I thank Maggie Chapman for those questions. It is true to say that our employability funding has had to reduce this year to £90 million. We are confident that, working with our regional economic partnerships and local employability partnerships, we can continue to see the provision of strong employability support that is person-centred and focused on ensuring that we continue to close the disability employment gap and do all that we can to work in a collaborative approach with third sector partners. In Dundee, for example, I was able to see evidence of a group of, I think, eight different third sector partners that came together to provide an employability service that was truly person-centred, because each of those third sector partners represents a different interest group and specialist group for disability services, mental health support and other elements. I have been incredibly impressed by the work that has been done.

I am keen that we do all that we can to continue to support that work and that participation continues to be voluntary. We are seeing both anecdotal and clear evidence that such work is making a real difference and that not having a mandating and sanctioning regime as part of it is making a discernible impact on people's willingness to engage, and to engage for a longer period. We are seeing strong results off the back of that work.

We will continue to assess the positive and the potential negative impact that our spending decisions have in areas such as employability. Obviously, I am keen to ensure that the committee is furnished with further information as those assessments are carried out.

Maggie Chapman: Thank you for that offer of on-going engagement on the impacts of the decisions.

As you said at the start of the meeting, the desire is to have equality, opportunity and community at the heart of all Government decisions. Those missions and challenges cut across portfolios. How have the conversations and the budget discussions that you have had with the Deputy First Minister and others gone? Are you able to talk about the impact of the employability cuts on, for instance, black and minority ethnic people? Perhaps I am putting on my equalities committee hat, but, if we are thinking about equalities across the board—equality of opportunity and fundamental equality, as the missions state—how are we tracking the impact of decisions now, never mind further down the line? What assessment have you made of the impacts of previous decisions and how has that informed current decisions?

Neil Gray: Yes, to answer Maggie Chapman's question directly. We had a discussion—not in this committee room but in another—with cabinet secretaries and the Deputy First Minister, as Maggie Chapman would expect, looking at our fairer Scotland duties and ensuring that the decisions that we were taking were cognisant of those duties and informed by them. We had discussions in relation to this and other portfolios, considering our impact on child poverty and other elements. Those discussions were part of the decision-making process, yes.

Maggie Chapman: Given the expected increase in unemployment, the loss of the flexible workplace development fund for upskilling workers seems counter-intuitive. Given what we are hearing across different sectors about the need for skills training and upskilling, where do you see those gaps being plugged in the decisions that you have made?

Neil Gray: The first thing to say is that, in Scotland, we have near record-low levels of unemployment at 3.8 per cent compared with 4.2 per cent for the rest of the UK. Again, I am not complacent about that, and it brings its own challenges for employers, including on skills and access to labour. It is important that we continue to assess the skills landscape, which is what Graeme Dey is doing in response to the Withers review, in order to ensure that we have a skills system that is as responsive as possible to the needs of employers and the needs of those who want to enter the employment market for the first time or want to transition within the labour market and move on, such as in the energy sector. We will continue to focus on that area. Graeme Dey is obviously very exercised and is going round the employer networks, the skills sector and others to ensure that our response to Withers is as informed as possible and that we come forward with a landscape that will be as supportive as possible for those who are seeking access to skilled employees and for those who are looking to retrain.

10:15

Maggie Chapman: The flexible workforce development fund drew on the apprenticeship levies. If the levies are not being used for that fund, to where are they being directed to support employability?

Neil Gray: Employability will, obviously, be a shared responsibility between Mr Dey and me, but the Government is making increased investments in the college, university and school sectors. There is, I think, an increase of £158 million in further and higher education through this budget. I will need to get that checked. We are continuing to invest in the skills system to ensure that we are meeting the needs of not only those who need to get on in work but those who are looking to access the labour market.

Maggie Chapman: I might come back in later, but I will leave it there for now.

Kevin Stewart (Aberdeen Central) (SNP): Good morning, cabinet secretary. I will follow on from Maggie Chapman's questions on employability funding. I recognise the severe pressures on the budget, but I think that there are things that can be done that do not require huge amounts of money.

Let me give you an example. We have a huge pool of talent in our neurodiverse population, yet so many folks with neurodiversity find it very difficult to get into employment. We have seen, over the years, the difference that the carer positive employer scheme has made in getting carers into employment. Would the cabinet secretary and his colleagues consider looking at whether a neurodiverse positive employer scheme could be established to get folk into the workforce—a workforce that would be better for having them?

Neil Gray: I thank Kevin Stewart for that question, which comes from his having quite a bit of experience in this sector. He will be aware, having started this process, of the work that is being done in the Government to advance the rights of the neurodiverse and the advocacy that is available for people with neurodivergent conditions through the new champion who is coming through, as well as work in other areas. He makes a sensible suggestion and one that I am more than happy to consider.

I see from my constituency casework the challenges for families with children with neurodivergence. Also, as the children grow older, as Mr Stewart points out, they face challenges in getting access to the employment market, even though, in the majority of cases, they have a substantial amount to offer, if very minor adjustments to the workplace could be made. That is where ensuring not only that the best kept secret in Whitehall—the access to work scheme—is better promoted but that other elements of Scottish Government support are tailored to ensure that we are taking full advantage of the economic potential that better support and access to work for people with neurodivergence can have.

Kevin Stewart: Thanks for that positive response.

I will change tack a little. Obviously, as a north-east MSP, ensuring a just transition is a priority for me. I certainly welcome the Government's commitment to the north-east just transition fund. I wish that the UK Government would act in a similar manner and match the moneys that the Scottish Government has allocated for that. However, one thing that is missing from the budget is the £80 million that was committed by the Scottish Government for the Scottish cluster for carbon capture and storage. I recognise that we are still waiting on track 2 decisions from the UK Government, but could you give us an indication of what will happen here, given that there is no allocation? If there is a move from the UK Government, will the Scottish Government find the money that has been promised to ensure that the Scottish cluster goes ahead?

Neil Gray: In short, yes. That commitment stands. It is not a single-year commitment. I fully expect, through discussions with the cluster, that that £80 million will be deployed in a way that ensures best value and the best strategic advantage for the cluster going forward. It is, however, entirely dependent and predicated on track 2 making progress. It has to be, because there cannot be CCUS without a UK Government decision. We encourage the UK Government to move much faster on that in order to ensure that we finally make up for the opportunities and promises that have been lost over the past decade or more and see the Scottish cluster advancing. We need it in Scotland for our net zero ambitions and the industrial decarbonisation of the Scottish cluster, but so does the UK. This is entirely mutually beneficial and an investment that we need to see coming forward as soon as possible. Our £80 million commitment continues to stand.

Kevin Stewart: To move forward to net zero and achieve a just transition we will have to invest in innovation. I have heard you and other members of the Government say that we will have to be much more focused with investment. We saw the budget decisions that, unfortunately, had to be taken on reducing enterprise agency money. Looking at everything in the round, however, with enterprise agency investment and just transition fund investment, how do we ensure that we allocate the resource to the right companies and entrepreneurs so that we make sure that we reach our goal of net zero and that just transition?

I will give you an example. The other week, I met Zephyrus Aerolabs, which is a very smart tech company in my constituency. Sometimes, it is difficult for those companies to get seed funding for that initial spurt of growth. How will we ensure that the enterprise agencies moneys and the other moneys that are allocated go to the right places to create that spark so that we get what we all want to see, which is that growing green economy?

Neil Gray: I thank Mr Stewart for that and for highlighting the good work of the business in his constituency.

I was in the north-east—in Aberdeen—with the First Minister for the launch of Scottish Enterprise's new corporate plan, which is focused on three key priorities, one of which is inspiring innovation. Its investment decisions are filtered through those lenses, one of which is around inspiring continued innovation. We continue to expand through the budget the likes of the Techscaler network, which is about providing the ecosystem that ensures that new business start-ups are able to establish. We also continue to support the likes of SNIB and others that provide some of the early stage investment, but there are other opportunities and areas regarding early stage investment opportunities in Scotland on which I am happy to follow up in writing.

That last thing that I would say is that, particularly in the energy space, we are cognisant of the fact that we need to plot a path and set a direction of travel for what we are looking to focus our public sector funding on, not just for the new renewable energy supply chain—the offshore wind supply chain—that we are looking to see established in Scotland, but for the catalytic impact that those investments can have in leveraging private investment. That is why the green industrial strategy that we will publish before the summer will be so important. It will take decisions and will say that we will prioritise certain sectors. In some cases, that will mean that some people are not happy, but we will take decisions on the basis of the evidence that we have received from our engagement and the support that we have received from the likes of the First Minister's investor panel.

As Mr Stewart will understand, when we talk about innovation and early stage investment support, a risk is attached. We have to accept that there will be an element of risk. Some innovations will flourish and the businesses will do incredibly well, and we want to see that in Scotland. Others, in some cases, will not do as well, but I want to make sure that we have an ecosystem that supports innovation, where new businesses can establish and which attracts further capital from private sector investment. We are already seeing the early stages of that good work come through, but I want to see more.

Kevin Stewart: My final question fits in well with your answer about the green industrial strategy and our investment proposals from it. We know that, in certain sectors, there is huge potential. We have huge potential with hydrogen, particularly for export. We know that the German economy will require substantial amounts of hydrogen and we have the ability to produce it here in Scotland. Obviously, we then have to get it to Germany. Colleagues, including Mr Beattie, and I have had conversations with folk who are very excited about our potential and what can be done here. It would not be difficult to get private investment for a number of the projects if the seedcorn money were there initially. Will the cabinet secretary comment on that? Will we peruse and pick some of those projects to ensure that we get the private sector investment that is required in order to move some of those things forward?

Neil Gray: Mr Stewart is right. He tempts me to pre-empt what will be in the green industrial strategy, but we are already investing in the likes of the Net Zero Technology Centre in Aberdeen, which is bringing together interested private sector parties to demonstrate the business case for a fixed link of a hydrogen pipeline between not only Scotland but neighbouring countries and Germany. I was in Germany last year on the day of the signing of the UK-Germany hydrogen accord, and Mr Stewart is right. In Germany, there is massive interest in industrial decarbonisation based on green hydrogen. Germany wants, for obvious geopolitical reasons, to diversify from where it is getting its energy, and we feel that we have an opportunity, with the abundance of renewable energy before us at the moment and also in the future, to see some of that offtake go not necessarily to the grid but into other elements, such as the production of green hydrogen. There are huge opportunities for us to use hydrogen domestically for industrial decarbonisation as well as for export. We will be looking at that element as part of the green industrial strategy process, and we will continue to work with industry on the feasibility of getting to that point. As I said, that is already happening with the Net Zero Technology Centre and elsewhere.

The Convener: I have been generous with members' time so far, but, in order to get through business, I ask them to be as concise as possible. If the cabinet secretary could consider making his answers a bit shorter, that would be helpful.

Colin Beattie: Good morning, cabinet secretary. I would like to talk about enterprise agencies and their budgets, in which there have been significant reductions. Scottish Enterprise has had its budget reduced by nearly 17 per cent in real terms; for Highlands and Islands Enterprise, the figure is 14 per cent; and for South of Scotland Enterprise, the reduction is nearly 22 per cent. How will those reductions affect the support that will be available to businesses in Scotland in 2024-25? What types of activities will be prioritised and which will be deprioritised?

10:30

Neil Gray: I appreciate Colin Beattie's question. We have had to take very difficult decisions, because of the fiscal context within which we are operating. It is widely appreciated by most reasonable commentators that this is one of the most challenging budgets in the devolution era. Rampant inflation and constrained public sector investment from the UK Government has passed on to us a very challenging budget situation, and as a result, we have been looking to ensure that all public bodies are as efficient as possible. There has been an ask to achieve savings almost universally across the board, and enterprise agencies are not immune from that. Obviously, I am working with all three to ensure that the challenging budget situation can be navigated and that the economic activity and transformation that they help and support us to achieve can be achieved.

I point Mr Beattie, as I did Mr Stewart, to the launch of Scottish Enterprise's new corporate plan, in which its activities have been refocused on the energy transformation that we are required to see, on ensuring increased capital investment and greater productivity in our business community, and on innovation and seeing businesses continue to innovate. Those are the areas where I would expect to see continued investment from enterprise agencies.

Colin Beattie: So the enterprise agencies are going to decide the priorities for their areas of responsibility.

Neil Gray: In collaboration with officials and me, yes.

Colin Beattie: Are they working under any guidelines?

Neil Gray: No, not particularly. As I have said, I would point to the work that is being done by Scottish Enterprise on the priorities that it is taking forward to ensure that we take greatest advantage of the greatest economic opportunity that we have before us, which is our energy transition—that is, the just transition.

There is obviously a climate imperative: we need to ensure that we tackle climate change. However, although we have clear responsibilities in that respect, it also represents our greatest economic opportunity. Indeed, we know as much from the investor panel's recommendations, which point to the fact that Scotland itself provides the greatest opportunity for us to leverage private capital.

I will bring in Colin Cook to provide greater detail.

Colin Cook (Scottish Government): Thank you, cabinet secretary.

I thought that it might be worth explaining the process. One of my roles in the sponsor directorate for the enterprise agencies and VisitScotland is to set out ministerial priorities, which are defined in the national strategy for economic transformation. We set those out annually to ensure that the agencies are working to the core government economic strategy.

Following that, we are responsible for performance management, assessing the way in which the agencies operate and, I believe, working with and supporting them to make the adjustments and the impact that we believe that they can have. All four of the agencies that I have referenced are looking very closely at what the budget settlement means to them. They have a clear set of shared objectives, which they share with the Scottish Government, and I have been encouraged by the way in which the leadership of those organisations has been responding.

Colin Beattie: Are job losses anticipated?

Neil Gray: I have not had that communicated to me, no.

Colin Cook: Do you mean in the enterprise agencies?

Colin Beattie: Yes.

Colin Cook: Obviously, the enterprise agencies and VisitScotland are looking at the overall budget that they have been given, and in line with other public sector agencies, they are looking at whether the number of people whom they employ is part of the solution. They are considering all options to ensure that they are as efficient as possible.

Colin Beattie: If they are doing less, they will need fewer resources.

Neil Gray: I do not think that it would be fair to say that they are doing less. They are prioritising the funding that they have in areas that will maximise the economic opportunities before them. As Colin Cook has set out, their ability to invest the money that they have available to them will have to be balanced with the numbers in the workforce available to them and whether the numbers that they have at present are conducive to their spending against that. These are balances to be struck and decisions to be taken by the enterprise agencies. As Mr Cook has set out, we will continue to work with them to ensure that they are doing that as efficiently as possible while also recognising the NSET priorities.

Colin Beattie: Just as an extension of that, the decrease in the resource budget for the enterprise agencies and other national bodies is partly driven by the wider public sector efficiency programme. Can you set out more detail on the progress that has been made so far in your portfolio? What impact are the efficiencies expected to have on delivery, and what final outcome do you expect from the efficiency programme?

Neil Gray: Efficiency will obviously be important to public sector reform, but we are not looking at public sector reform purely on the basis of reductions in spending. That process is being led by the Deputy First Minister, and we have embarked on ensuring that our business support landscape is as efficient as possible, which will include looking at the work that is done by Business Gateway and our enterprise agencies, and at the role of our regional economic partnerships, to ensure that we have a clear business support landscape that responds to the needs of business and which allows people, depending on which part of their journey they are on, their location or the sector that they are in, to understand which door to turn to in order to receive the support that they need.

I have had early discussions with the Convention of Scottish Local Authorities, which has responsibility for Business Gateway, and with other parties to ensure that the public sector reform piece that comes forward meets those ambitions and aligns with the direction of travel that we have given to our enterprise agencies. I would point again to the corporate plan that Scottish Enterprise has published, which will ensure that it focuses on the key priority areas and that those areas are aligned with our priorities for the national strategy for economic transformation—of which, as I mentioned in my opening remarks, we are undertaking a refresh to ensure that we are focused and that we prioritise those actions across the 10-year plan.

Colin Beattie: Finally, just for clarification, the level 4 spreadsheet accompanying the Scottish budget notes that the overall capital budget for the enterprise agencies is

> "maintained in line with existing spending review capital plans".

In real terms, the capital budgets of the three enterprise agencies reduce by 4.6 per cent in 2024-25, or by 24.6 per cent if financial transactions are included. What will be the impact of that?

Neil Gray: It is undeniable that the reduction in the capital allocation that the Scottish Government has received and is receiving—that is, the projected 10 per cent cut to our capital budget over the coming five years—will have an impact, particularly when set against rising inflation and supply chain pressures. We have allocated almost all of the financial transactions budget to the Scottish National Investment Bank, and the reduction is directly attributable to the reduction in the financial transactions taken by the UK Government.

In both areas, you can see a direct correlation between UK Government decisions and their impact on our budget and on the decision-making possibilities that are available to us. It is undeniable that it will have an impact. As far as the energy and enterprise agency spaces are concerned, I would far rather see an increase in capital expenditure, particularly given the opportunities that we have with the energy transition. However, realising our potential to do that at a time when our capital budget is being squeezed so hard by the UK Government will be more than challenging.

Colin Smyth (South Scotland) (Lab): Following on from those questions, we know that the budget is challenging, but we have heard that the budget overall is up. The departmental budget is down by 8 per cent, but the cuts to the enterprise agencies are three or four times higher than the overall cut in the budget—particularly for South of Scotland Enterprise, which will see a 22 per cent cut. Given the huge economic inequalities across Scotland—for example, the south of Scotland has the lowest wages and the highest level of outward migration of young people, because of the lack of high-paid, high-skilled jobs—what does the budget say about tackling the economic inequalities in those areas, when you are cutting the enterprise budgets in peripheral areas by so much?

Neil Gray: We established South of Scotland Enterprise only a few years ago, because we recognised that we wanted to take greater advantage of the economic potential of the south of Scotland, and I am very pleased with the work that Russel Griggs and his team have been doing on exactly that issue. As for the area that Mr

Smyth highlighted, the agency has been well engaged in supporting the real living wage campaign in the south of Scotland and is seeing great results off the back of that. I will continue to support it in that respect.

I more than appreciate that there will be challenges for our enterprise agencies, as there will be for others across Scotland, as a result of the budget. However, there are major opportunities available. There are, for example, big economic opportunities coming through not just from the energy transition but from innovation and the digital sector. The investment that we are making to increase the digital budget will have a disproportionate impact on rural communities and will see broadband being rolled out through the reaching 100 per cent programme, making up for the shortfall in funding for what is a reserved area.

We will continue to do what we can to invest while recognising not just the challenges but the economic opportunities in more rural areas, including in the south of Scotland. I will continue to work with Russel Griggs and his team, with whom I have a very good working relationship, to ensure that the opportunities that they are working towards can be met.

Colin Smyth: We are seeing those opportunities; as the minister knows, the south of Scotland has the highest number of wind farms in Scotland. So far, though, we have seen very few of those renewables jobs, and I hope that that will change.

As well as the cuts to enterprise agencies, the Scottish National Investment Bank is seeing its budget being cut by a third, to the lowest level since it began to operate, despite the fact that the chair of the bank says that the planned £2 billion public capitalisation will not be sufficient to meet the bank's mission. Why is that cut so large, and is the Scottish Government still on track to provide the £2 billion that is committed to SNIB? Do you still expect, for example, the bank to be self-financing by 2025?

Neil Gray: I hope so on both counts. As I said in response to Mr Beattie, there could be a direct correlation with regard to financial transactions, for instance, between the cut that the UK Government has taken and our ability to allocate. We have allocated almost all the financial transactions available to us to the Scottish National Investment Bank, but the bank is also hugely reliant on capital funding, and our capital budget is going down by 10 per cent over the next five years. Decisions at UK level have direct consequences for our decision-making opportunities in Scotland.

I would by far prefer that we saw those problems cut off at source, with investment coming from the UK Government. However, I do not see that coming from this Tory UK Government—or, I am sad to say, from an incoming Labour Government. If we cannot have that, it makes the argument for Scottish independence all the greater.

Colin Smyth: I think that we will see more investment, and what we will certainly see from a UK Labour Government is growth, which we have not seen from the Scottish Government.

Sticking with the issue of financial transactions that you mentioned, cabinet secretary, what progress do you expect on SNIB's ability to access existing capital beyond them? One of the issues raised with the committee by the chair of SNIB was securing the regulatory permissions necessary to manage third-party capital. What progress do you see taking place in the forthcoming year to enable the bank to do that and to access other forms of funding?

Neil Gray: First, in response to Mr Smyth's point about growth, we have, of course, seen 10 per cent per capita growth in Scotland's economy since 2007, compared with 6 per cent in the rest of the UK. His assertion that we are not seeing growth in Scotland is wrong. I continue to support economic growth for a purpose, which is to invest in a wellbeing economy.

As for Mr Smyth's point about SNIB, we will continue to discuss the asks of the chair and the chief executive with regard to financial flexibilities as things continue to grow and develop. In a meeting only two weeks ago, I think it was, we gave them a commitment to exploring that this year. Those discussions are on-going, and we are looking at what we can do to ensure that the bank is able to operate in the way that Mr Smyth has outlined on those asks and on others, too.

10:45

Colin Smyth: Is there a timescale for that yet?

Neil Gray: I cannot put a timescale on that, but the discussions are on-going.

Colin Smyth: There is something else that you have not been able to put a timescale on yet. Four years after the legislation to establish the bank was passed, you have not yet established an advisory board to oversee its work. Do you have an update on the timescale for that?

Neil Gray: I think it entirely fair for an advisory board that will look at the bank's performance to wait for the bank to be established before it can be functional. However, work is on-going to establish the advisory board that will provide additional assurance measures, beyond those that are already in place for a non-departmental public body and a public limited company, to ensure that we have confidence—which I do; I have no reason not to—in the bank's decisions and performance.

Colin Smyth: Just give me an idea of the timescale.

Neil Gray: That process is on-going.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Good morning, cabinet secretary. In your opening remarks, you mentioned that the digital connectivity capital budget has increased by 50 per cent. Looking at the numbers, I see that it is, indeed, up from £93 million to almost £140 million. What do you expect to achieve from the increased budget in the forthcoming financial year?

Neil Gray: That is to ensure that we continue to roll out the broadband capability that is part of the R100 programme. It is about providing that infrastructure to ensure that we are able to match the digitisation and innovation aspirations of our business community. As I said in response to Colin Smyth, that will be, by its nature, disproportionately beneficial to rural and island communities, which is where the roll-out is needed most. I look forward to continued expansion of the R100 programme in this financial year off the back of the 50 per cent budget increase. It is also, I hope, a good investment in the supply chain and the business opportunities that will be available for our companies across Scotland.

Gordon MacDonald: You touched on the R100 programme and how important it is, but, as you mentioned earlier, broadband is reserved to the Westminster Government, so why did you feel that it was necessary for you to increase the budget in that area? Are we still on target to complete the R100 programme by 2028?

Neil Gray: Yes. You have rightly said that the area is a reserved competence, and the need for us to have an R100 programme at all is because there has been underinvestment by the UK Government, meaning that we will not see the digital roll-out happen as quickly as we need it to, particularly for our rural businesses. Therefore, we are making an increased commitment to meet the target and ensure that the economic growth opportunity that comes off the back of it is available to as many people as possible—not just businesses but the domestic households that will have access to it, as well.

Gordon MacDonald: The other R100 issue that I want to ask about is the fact that Scotland has more than 90 inhabited islands. I understand that Fair Isle was connected to full fibre two years ahead of schedule and used world-leading technology to boost the signal. Will you provide an update on where the roll-out of R100 is in relation to the islands?

Neil Gray: As somebody who is originally from Orkney, and having visited it during the Christmas recess, I can confirm that the connectivity, particularly for mobile data, is much improved. You are correct about the connectivity for Fair Isle, and I am happy to provide a further update to the committee with more detail on the proposed work that we have coming forward on the expansion of R100 to our island communities. That update will satisfy your inquiries.

Gordon MacDonald: My final point relates to the final contracts for R100, which were signed fairly recently but prior to the price inflation that we have seen in construction costs. Will there be an impact on the Scottish Government's budget as a result of the recent increase in construction costs in the economy? Does the contract allow additional charges for that? Is it to be borne by the supplier?

Neil Gray: Given your background, you will understand the fact that supply-chain price inflation has an impact on our spending power and our ability to deliver with the budget that we have available to us. However, we are working with our suppliers and doing what we can to ensure that that is mitigated as far as possible. It will not always be possible; in some cases, we will have to spend more in order to get less. That is the nature of inflation. Again, as part of the response that I give to the committee regarding the progress of R100, I will set out more in answer to your inquiry.

Gordon MacDonald: Thank you very much.

Brian Whittle (South Scotland) (Con): Good morning, cabinet secretary. You will be aware of my interest in longer-term strategies and the prevention agenda. Following on from some of the earlier questions, I want to dig a little bit into the cost to enterprise agencies and the SNIB and the fact that there is no allocation to the flexible workforce development fund. That will, inevitably, lead to less investment and less support to establish and grow companies, which, in the long term, will lead to a reduced tax take and less money in future budgets. Where is the long-term economic strategy in the current budget?

Neil Gray: That comes from our national strategy for economic transformation, which sets out our long-term economic aspirations. The green industrial strategy is coming up, and the innovation strategy was published last year. There are various plans and strategies that we have available to us.

I assume that you, like Murdo Fraser, continue to support UK Government spending plans, and you must understand that those plans have an impact, which would have been greater if we had not taken the tax decisions that we took, on our ability to spend in those areas. We are allocating our resource as best we can to ensure that we maximise the economic opportunities before us, but UK spending decisions have an impact. In reality, they have a direct consequence for us, and that has meant that there have been some difficult spending decisions. However, if we had replicated UK spending plans, we would have had a real-terms cut to our NHS, which, at this time and given your interest in a healthier nation, could not be comprehended. Although it is, admittedly, a difficult spending decision for some of the reasons that you highlight, we are working with our enterprise agencies, the SNIB and others to ensure that we are getting the maximum possible from that investment and taking maximum advantage of the opportunities that are available to us.

Brian Whittle: The cabinet secretary misses the fact that decisions that are made at Scotland level have consequences. What I am trying to get at here is that, if you invest less in business, you will have less money to invest in public services; in fact, if you invest less in those areas, you will require more investment in public services. You are talking about a long-term strategy, and you have talked very well today about Government targets. However, by cutting those particular agencies, you are giving yourself less opportunity to create the wealth that will generate enough tax take to put into public services. Again, where is the long-term strategy in the budget?

Neil Gray: The national strategy for economic transformation is a 10-year strategy for us to transform our economy so that we can take advantage of the opportunities that we have available to us. I believe that you need a good economy and a good society; the two are mutually reliant. You cannot have a good economy without a good society, so investment in public services is absolutely essential.

We will do everything that we can do to ensure that the money that has been prioritised for business, such as £685 million-worth of business rates relief and the maintenance of the small business bonus scheme, which is taking an estimated 100,000 business properties out of paying rates altogether, is the most generous in the UK. Ninety-five per cent of businesses here pay less in non-domestic rates than those elsewhere in the UK. We are looking to ensure that the decisions that we have taken in the budget are balanced and that we continue to see economic activity and economic growth opportunities coming through, balanced against the need to ensure that we protect public services so that we have a healthy workforce that supports a growing economy.

Brian Whittle: The reality on the ground is that, because of decisions that the Scottish Government has made, the further education sector is screaming for more investment. The university sector now has to cut 1,200 places for Scottish students. Coming on the back of the Withers review, as well, how on earth does that help the Scottish economy? It is surely a false economy. If we are not creating equal opportunities for our Scottish students, how on earth will we continue to support a wellbeing economy?

Neil Gray: I recognise that we need to ensure that our skills landscape is supportive. As I said in previous remarks to Maggie Chapman and Kevin Stewart, we need a good skills landscape to ensure that we are providing the labour market with opportunities. That allows businesses to grow and it allows people to get on with taking advantage of the just transition that we see in the energy sector, for instance.

The figure that you point to on higher education places was, of course, a temporary investment off the back of Covid. The current figures are returning to pre-Covid levels, but we will of course continue to work with our university sector. Indeed, I have a meeting next week to discuss how we can take full advantage of the innovation that is going on in the sector and the investment that we are making in entrepreneurial campuses. At the University of Strathclyde last week, I saw incredible work on the entrepreneurial support that it is providing to its students; I saw the benefits from that, not just to business start-ups but in the income potential that it can achieve; and I saw the collaborative work that is going on with our universities to see the level of investment grow.

We have big opportunities. I recognise the challenges, but we will continue to work with our skills colleagues. As I have said, Graeme Dey is incredibly energised to make sure that our response to the Withers review will result in a supportive skills landscape. We will make sure that the resource that we put behind it is as much as we possibly can provide in order to ensure that we have a landscape that is as supportive as possible, not just for our employers but for our workforce.

Brian Whittle: Thank you. I will go down a similar route on the third sector. The choices that the Government is making and the squeeze on council budgets are giving our councils almost impossible decisions to make. For example, in my area I have been speaking to two third sector mental health organisations that are no longer funded and will therefore have to shut down. The people whom they support will still have to get treatment, which means that they will join an NHS queue.

That funding might have come out of the budget in the council’s ledger, but it will still come out of the Scottish Government's budget in another portfolio. Do you acknowledge that those kinds of cuts are a false economy? I say to you again that it is short-term gain for long-term pain, and there is no real cross-portfolio working to tackle such issues.

Neil Gray: We have increased funding for local government. That is recognised in the budget. I recognise, however, that all elements of the public sector are facing fiscal challenges, which is born out of decisions that are taken at UK level. The challenge that local government in England is facing, where we see local authorities going bankrupt, is self-evident, and the cuts that are happening to local authorities there are on a far greater scale. We are not willing to follow that, which is why we have taken tax decisions to prioritise public spending.

11:00

If Mr Whittle understands the consequence of UK spending decisions on Scottish Government spending decisions and—as he has just pointed out—local government spending decisions, I would prefer by far that we work together on the initial damage that is being done to our public sector financial landscape by the UK Government's spending decisions. Whether it be on mental health, social work or education, ensuring that we have preventative spending at an early stage is exactly why we have prioritised protecting, as far as we possibly can, our public sector budgets.

Brian Whittle: I think that the councils would disagree with your analysis. The decisions that the Scottish Government has made continue to make Scotland the unhealthiest nation in Europe. We also continue to see huge reductions in our programme for international student assessment scores. That is the reality. When will the budget address those elements, which are a huge drain on our economy?

Neil Gray: We are making substantial investments in education and health. The budget for both areas is up, the local government settlement is up and the NHS budget is up. I acknowledge Mr Whittle's assessment that we need to make sure that we have a healthy workforce and to invest to ensure that we do. Ensuring that we have minimum unit pricing and that we tackle availability of unhealthy products are among the areas on which we need to move forward. I look forward to working with Mr Whittle on those things in order to ensure that they are got right and that, where we agree, we can move forward as quickly as possible, although those matters are predominantly outwith my portfolio responsibilities.

Brian Whittle: Outcomes are all that matter. I will leave it there.

Evelyn Tweed (Stirling) (SNP): Good morning, cabinet secretary. I completely understand the challenging fiscal context for the budget, and the backdrop of austerity. I note the reduction in VisitScotland's budget. What will be the impact of that? Will VisitScotland be doing things differently?

Neil Gray: We are working closely with VisitScotland to ensure that we maximise what is an incredibly important aspect of our economy. The tourism sector contributes a substantial amount to our economy. International visitor numbers are up, as is international spending, and not just on the past year but on pre-Covid times. It is incredibly encouraging that people wish to visit Scotland and spend their money here, which is important for our economy.

We will work with VisitScotland on the implications of the budget and on what it is able to provide as a service to ensure that Scotland continues to be a destination of choice—not just internationally, but domestically.

Evelyn Tweed: Thanks, cabinet secretary. In the interests of time, convener, I will leave it there.

The Convener: Thank you, Ms Tweed.

I will pick up on something that the committee has previously written to the Government about—the small business bonus scheme. The Government commissioned a report on the scheme from the Fraser of Allander Institute, and changes were introduced in April last year. One of the factors that the institute raised was that, although the scheme was valued, it risked restraining economic growth because businesses tended to group just below the cut-off point, which perhaps held businesses back from deciding to expand their business or premises, because they would lose access to the scheme. The Government commissioned the work, but did not really respond to the Fraser of Allander Institute's report in a significant way. Have the changes in April made any difference to some of the issues that it raised about the scheme?

Neil Gray: The Fraser of Allander assessments have been helpful in demonstrating some of the positive elements of the small business bonus scheme in terms of its ensuring that some businesses continue to be viable, as well as in demonstrating that other elements are more challenging, as you pointed out, convener.

I think that it is fair to say that, across the Government, Tom Arthur is, as part of the new deal for business group, looking at what we can do to bring forward longer-term non-domestic rates reform. Some of that work is challenging, because where we make changes, there will be winners and losers, and there is a potential cost to be borne either by the Government or by the business sector. We are developing a long-term evidenced-based approach to non-domestic rates reform.

Part of the discussion with the hospitality industry last week was about what might be helpful for it and what barriers to growth there might be in the current set-up. The discussion also considered whether there are ways of reforming that would not have wider unintended consequences. Part of that assessment will be informed by the work that has been done by the Fraser of Allander Institute.

The Convener: Thank you. In your opening statement, you referred to the Ana Stewart report. The Government previously committed £50 million for a women's business centre. In this budget, you have set out that, following the Ana Stewart review, a different approach will be taken to how we support women entrepreneurs. You said that it is work that is being taken forward. In your letter, you state:

> "The 2024/25 budget provides the resources necessary to make early progress on delivery."

Where in the budget can we see that investment?

Neil Gray: I will find out exactly where the budget line is, but we are starting with an investment of £1.5 million in implementation. I will shortly bring in Aidan Grisewood to point you to the exact place where it is held. As I set out in the letter to you and the committee—I think that it was on 19 December—the "Pathways: A New Approach for Women in Entrepreneurship" review by Ana Stewart, alongside Mark Logan, considered a dedicated women's business centre, consulted widely on it and concluded that it is not necessarily the best way of encouraging female participation in business. There will be differing opinions on that, but based on that wide-ranging consultation and feedback, we have decided to accept Ana Stewart's recommendations that the likes of pre-start centres and pop-up centres will be the most advantageous way of progressing greater diversity in business start-ups and encouraging more women into business. This year, £1.5 million will be used to start expanding that. I will happily bring in Aidan Grisewood to provide greater detail.

The Convener: There was previously a £50 million commitment. Is it anticipated that the £1.5 million for this year will increase in future years? It would take us almost 20 years to get to £50 million if we were to go at the rate of £1.5 million a year. Is the £50 million commitment still there?

Neil Gray: No, the £50 million—

The Convener: That was for a business centre.

Neil Gray: Yes. It was a different commitment, for a women's business centre. As I said, the consultation and engagement that Ana Stewart and Mark Logan engaged in concluded that that would not the be most effective way of getting women into business.

The Convener: Now, there is £1.5 million for this financial year.

Neil Gray: To begin with.

The Convener: Is it anticipated that that will increase in future years?

Neil Gray: Yes. Obviously, I cannot account for future budgets, because we do not have sight of them, but I hope that we would be able to continue to invest greater amounts in that space. The Government recognises that greater diversity in business start-ups is an untapped economic opportunity, and that ensuring that we release the full potential of women—women, in this case, but it is so for other groups, as well—to get into business and to get on in the employment market is a good opportunity for business growth. It is also the right thing to do. I will bring in Aidan Grisewood on the particular budget area in which that funding lands.

Aidan Grisewood (Scottish Government): That is very simple. The money is in the innovation and industries line in the budget, which also includes the increase in the Techscaler funding to £9.5 million for the year ahead.

The Convener: How are we going to monitor the impact of that £1.5 million so that we know whether it is making a difference? How is the Government going to measure the effectiveness of that investment in encouraging women into business?

Neil Gray: As with all Government investments, there must be an appraisal of its efficacy. As we set our plans for the investment of £1.5 million this year, we will work with Ana Stewart and Mark Logan on how that will work and we will set out how we will monitor and evaluate its progress.

The Convener: Will that be shared with the committee? You have given a rough idea of how the £1.5 million is to be spent, but we might have questions about geographical spread, which the committee is interested in. Will we get a more detailed picture of how the money will be invested?

Neil Gray: Absolutely—I am happy to give that commitment. We are still in discussions with Ana Stewart and Mark Logan about the budget allocation for the coming year and how it will be invested best to begin with. Once we have more information, I will be more than happy to share it with the committee to ensure that it is fully apprised of decisions.

The Convener: Thank you. That brings us to the end of the evidence session. I thank the cabinet secretary and his officials for attending this morning.

11:11

Meeting continued in private until 11:41.

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