

ECONOMY AND FAIR WORK COMMITTEE

**2nd Meeting, 2022 (Session 6), Wednesday 19
January 2022**

Scottish Government Budget 2023/24

Note by the Clerk

Background

1. The Committee will take evidence on the Scottish Government budget for 2022-23. The budget was published on 9 December 2021 together with a framework for a resource spending review and its medium-term financial strategy (MTFS).
2. The Stage 1 debate on the Budget Bill is expected to take place on Thursday 27 January. If it so wishes, any committee has the option to submit an alternative spending proposal by way of a reasoned amendment to the motion on the general principles of the bill.

Committee meeting

3. The Committee will hear from—
 - Kate Forbes MSP, Cabinet Secretary for Finance and the Economy;
 - Helena Gray, Interim Director of Fair Work, Employability and Skills;
 - Richard Rollison, Director for International Trade and Investment; and
 - Kathleen Swift, Head of Economic Directorate Finance Unit, Scottish Government.

Supporting Information

4. The Committee's letter of 4 November with its pre-budget views is [available online](#) and is included at **Annexe A**.
5. The Cabinet Secretary response of 15 December 2021 is [available online](#) and included at **Annexe B**.

**Clerk to the Economy and Fair Work Committee
14 January 2022**

Pre-Budget Scrutiny 2022-23 Report**Letter to the Cabinet Secretary for Finance and Economy, 4 November 2021**

Dear Kate

In line with the written agreement on budget scrutiny, please find attached the Economy and Fair Work Committee's pre-budget views. We look forward to receiving your response alongside publication of the budget on 9 December.

With the work of the new Economy and Fair Work Committee beginning in earnest following summer recess, we prioritised gathering views from key stakeholders on the impact of and recovery from the pandemic, the current position of the Scottish economy and the support and policies required to encourage investment and employment opportunities. The budget is being brought forward in challenging circumstances and will be expected to support a major recovery effort. The attached document highlights budget priorities identified by this Committee.

While we await publication of the Scottish Government's new 10-year economic strategy, we continue to develop our work programme and scrutiny priorities, starting with an inquiry into supply chains. We look forward to the budget responding to the concerns of this Committee and will pay close attention to how spending decisions align and support the new economic strategy and the National Performance Framework.

Kind regards
Claire Baker MSP
Convener

**Economy and Fair Work Committee
2022-2023 pre-budget comments**

1. We held evidence sessions during September¹ to discuss how the Scottish Government budget for 2022-23 could best support a post-pandemic society and drive business recovery. Our sessions focused on business, employment and skills, the economic development agencies and VisitScotland and a snap-shot session to inform the scope of our supply chains inquiry.
2. Looking to the budget for next year, front and central must be support to encourage investment, growth, prosperity and employment opportunities, whilst building resilience and protection against any future economic shocks.
3. The Committee recognises that significant resources for economic recovery will be stimulated by capital investment. We will be looking for the budget to clearly

¹ The official reports of those meetings can be found [here](#).

signal what the Scottish Government's capital investment programme will do to support the economy across all policy areas.

4. There is considerable opportunity to challenge and re-set what we do and how we do it, having regard to our ambitions on fair work and Net Zero and other cross-cutting and cross-party national aims towards a wellbeing economy. Our budget commentary and suggestions are provided under four headings below.

Business Recovery and Support

5. There are a number of public bodies with economic development roles, but Scottish Enterprise, Highlands and Islands Enterprise and South of Scotland Enterprise (the economic development agencies) have the key roles in supporting business recovery. Their budget allocations represent a significant area of Scottish Government spend.
6. Scottish Enterprise (SE) has seen a significant income reduction from Financial Transactions, down from £27.3m to £6.7m. Its baseline Financial Transactions budget has reduced from £48.8m to £28.2m. We recognise that other income can fluctuate and note that in the current year income was more than enough to compensate. SE told us it also expects to recoup some returns on investments. However, we note that a reduction in Financial Transactions next year, may present a significant challenge.
7. Highlands and Islands Enterprise (HIE) has an indicative capital budget of £25.6 million, received an increase in the green jobs fund to £1.4 million and is in discussion about further funding for the funicular railway at Cairngorm. It has a Financial Transactions budget of £2.6 million but due to this being a new funding stream, has struggled to encourage uptake.
8. South of Scotland Enterprise (SOSE), more newly established, is building expertise and increasing awareness of its services. It takes a less rigid approach to criteria to maximise flexibility. It has a 5-year capital plan, expects around £17 million in revenue and around £5 million in Financial Transactions next year.
9. A one-stop portal, findbusinesssupport.gov.scot, was introduced and supported businesses during the pandemic. The Cabinet Secretary acknowledged that more work can be done to simplify the business support landscape—

“The challenge after Covid will be reflect on what has become even more complex for businesses to navigate and to streamline that...There is an action there for the Government, working with the enterprise and skills strategic board, to streamline further, taking into account the complications that Covid has added.”
10. We agree with Colin Cook, the Scottish Government's Director of Economic Development, that—

“the key issue is how we will deliver the 10-year economic strategy. We need to redesign the support we offer businesses from the perspective of the businesses themselves”

- 11. We recommend that the Scottish Government build on the portal to develop a one-stop shop approach for businesses, both online and by improved joint working between agencies, recognising that support must be tailored to local needs.**

Business support for Women

12. Women’s Enterprise Scotland (WES) highlighted difficulties in accessing financial support from some traditional funding sources and a lack of gender-disaggregated data on women’s business activity and procurement. Carolyn Currie said—

“Women tend to run smaller businesses. You have seen the grant data, so you will know that they tend to lack access to finance, and businesses need that structural capital in order to be able to trade internationally in the first place and they need to have the networks in place in order to get the insight and expert information on the opportunities that are open to them.”

13. We welcome the commitment in the Programme for Government to progress a women’s business centre, backed by £50m, during this Parliament. There is significant economic opportunity from enhancing the contribution women make to the Scottish economy.

- 14. We recognise the vital role women play as part of our workforce; as employees, entrepreneurs and business owners, and we would like to see the establishment of a women’s business centre prioritised in next year’s budget.**

Co-operatives and small businesses

15. The Committee believes a prosperous economy needs businesses of all models and sizes. SMEs make up the majority of Scotland’s business base. Support for small businesses should focus on building resilience and sustainability.

16. Co-operatives UK highlighted the strengths of the co-operative model such as gender equality and fair wages. Rose Marley of Co-operatives UK observed—

“the islands have the highest number of co-ops per capita. They are a really resilient way to build communities.”

17. However, Ms Marley also said business support for co-operatives is not provided on the same terms as support for other business models and that there could be better understanding of the co-operative model.

18. Co-operatives could play an important role in our drive towards a wellbeing economy. We want to ensure that appropriate support is provided for them. **The**

Scottish Government is asked whether it proposes to take any action to raise awareness and promote the co-operative model and if so, what funding will be made available for this.

19. We recognise many smaller businesses have accumulated significant debt during the pandemic. FSB Scotland made a number of suggestions for managing business debt, including extending the term for loan repayment, repayment only starting when a certain level of profitability is reached and controlling costs such as non-domestic rates. **We ask the Scottish Government to consider these suggestions in the context of next year's budget.**

Moving to Net Zero

20. Any consideration of economic recovery must be in the context of moving to Net Zero but we were told many businesses are still in survival mode and may not feel able to look further ahead. Barry McCulloch of FSB Scotland said—

“I am not sure that businesses can be in survival mode and also make the transition to substantial decarbonisation.”

21. We heard from a cross-section of businesses about the steps already taken. But FSB Scotland told us there is little business appetite for taking on further debt to invest in such measures and a lack of clarity on practical steps businesses can take.

- 22. We call for a clear roadmap for businesses, particularly smaller businesses, backed by practical support and non-loan-based funding in next year's budget, to drive the necessary and sustained efforts needed to decarbonise.**

Conditionality

23. The Committee would like to see more recognition of the key role that public support can play in helping our businesses innovate and transform. We acknowledge the Scottish Government's recent announcement about fair work and public procurement contracts. We believe increased conditionality could be an important driver of the fair work agenda. The Committee recognises the pressures on businesses and that measures must be accompanied by appropriate engagement, advice and support. We want businesses and initiatives that contribute to a wellbeing economy; better-quality jobs, fair pay and conditions, equality, inclusive growth.

24. Dave Moxham of the STUC, told us—

“Many of the factors that we want to take into account already exist, such as the Scottish Government's wellbeing agenda and its commitment to community wealth building and the living wage and so on. However, I am not sure that these are locked together in terms of the enterprise agencies' mission and what the Government says is part of its mission.”

25. We note the more explicit reference to fair work in the remit and underpinning legislation for the South of Scotland Enterprise, relative to Scottish Enterprise and Highlands and Islands Enterprise. The Committee is keen to ensure there is consistency of fair work outcomes nationally and across all of our regions.
26. We would like to see Scottish Government do more to ensure that our economic development agencies direct financial support in this way. **We call on the Scottish Government to encourage a consistent approach to conditionality for business support, to help drive the changes we need to see.**

Tourism

27. Tourism plays a vital role in Scotland's economy and VisitScotland's core budget has been impacted by a loss of self-generated income due to the reduction in marketing and events activity. Pre-pandemic, this added between £4m-£5m to VisitScotland's budget and the challenge for VisitScotland now is how to re-instate that income.
28. VisitScotland chairs the Scottish Tourism Emergency Response Group (STER). STER's current priority is delivering Phase One of the Scottish tourism recovery plan for which £25 million of Scottish Government support was received. STER has submitted its Phase 2, longer-term recovery plan, to the Scottish Government and awaits a decision. No Phase 2 funding has been secured as yet.
29. **Given the importance of tourism to Scotland's economy, the Committee is keen that funding is secured for Phase 2 of the tourism recovery plan.**

Scottish National Investment Bank

30. The purpose of the Scottish National Investment Bank, launched a year ago, is to provide long-term capital and funding to businesses and projects in Scotland to support the development of a fairer and more sustainable economy. The working assumption is that it will be funded by Financial Transactions. Earlier this year, there was a significant reduction to the Scottish Government's financial transaction allocation. We asked the Cabinet Secretary about future SNIB funding, who responded—

“The short answer is that we will continue to prioritise FTs for the SNIB. Our commitment to capitalising the SNIB – remains undiminished. How I do that is a headache for me in collaboration with the UK Government, but that commitment to ensuring that the SNIB has the funding it needs is undiminished.”

31. **We note a significant challenge for next year's budget may be to mitigate a reduction in Financial Transactions to fund the Scottish National Investment Bank. We would like assurance that funding to replace any significant reduction in Financial Transactions will not be at the expense of other areas of economic development spend.**

Fair work and support for employment and skills

32. This Committee's remit covers fair work, employment, the labour market and just transition.

33. We saw younger people's employment opportunities heavily impacted by the pandemic including a fall in the number of modern apprenticeship starts. We are now seeing increasing job vacancies but, according to the Enterprise and Skills Strategic Board, a degree of mismatch between vacancies and the skill-sets of those looking for work. Nora Senior told us about—

“skills shortages in certain localities and regions of Scotland. There will be job vacancies, but people will not be in the right locations to take up the opportunities”

34. We want to see a clear commitment in this budget to ensure wherever possible that our work-ready young people have access to training and support to equip them with the breadth of skills needed to match our vacancies.

35. Once in employment, job-related training is the mainly the responsibility of employers. We asked Skills Development Scotland (SDS) why there had been a steady decline in job-related training over the last fifteen years and whether the infrastructure and incentives are in place to support employers. SDS told us that college and university systems provide opportunities for in-work training and developing practical skills but that the decline is in upskilling, reskilling and developing management skills.

36. The Fraser of Allander Institute drew attention to the employer skills survey and emphasised the importance of ensuring employees and young people coming to the labour market have more rounded skill-sets.

37. We call on the Scottish Government to demonstrate how the budget will support stronger links between employers and our employability services and the PACE programme and encourage employers to invest in their employees to develop the skills base.

38. Longer-term, we know there is a significant challenge in Scotland to ensure our workforce and businesses make a just transition to net zero. It is essential to see leadership from Government that drives forward the mapping of skills currently in the oil and gas sectors, against the skills needed for the renewable energy sectors.

Conclusions and Recommendations

39. We recommend that the Scottish Government build on the portal to develop a one-stop shop approach for businesses, both online and by improved joint working between agencies, recognising that support must be tailored to local needs. including support in transitioning to Net Zero. It would be helpful to see a plan with timeframes to map progress and see this

commitment reflected in the budget for 2022-23 by way of appropriate direction to the relevant bodies.

40. We recognise the vital role women play as part of our workforce; as employees, entrepreneurs and business owners, and we would like to see the establishment of a women's business centre prioritised in next year's budget. The Committee would be grateful for sight of the timeline for establishment and details of funding and how it will interact with existing agencies and Business Gateway.
41. Although not directly budget-related, we encourage the Scottish Government to ensure gender-disaggregated data on women's business activity and procurement in Scotland is gathered. This will be helpful when measuring outputs and disaggregation could also be considered more broadly.
42. The Scottish Government is asked whether it proposes to take any action to raise awareness of and promote the co-operative model, and if so, what funding will be made available for this.
43. We ask the Scottish Government to consider the suggestions made for managing business debt.
44. We call for a clear moving to Net Zero road-map for businesses, particularly smaller businesses, backed by practical support and non-loan-based funding in next year's budget, to drive the necessary and sustained efforts needed to de-carbonise.
45. We call on the Scottish Government to encourage a consistent approach to conditionality for business support, to help drive the changes we need to see.
46. Given the importance of tourism to Scotland's economy, the Committee is keen that funding is secured for Phase 2 of the tourism recovery plan.
47. We note a significant challenge for next year's budget may be to mitigate a reduction in Financial Transactions for support provided through Scottish Enterprise and to fund the Scottish National Investment Bank. We would like assurance that funding to replace any significant reduction in FTs will not be at the expense of other areas of economic development spend.
48. On skills, we want to see a clear commitment in this budget to ensure wherever possible that our work-ready young people have access to training and support to equip them with the breadth of skills needed to match our vacancies.
49. We call on the Scottish Government to demonstrate how the budget will support stronger links between employers and our employability services and the PACE programme and encourage employers to invest in their employees to develop the skills base.

- 50. Longer-term, we know there is a significant challenge in Scotland to ensure our workforce and businesses make a just transition to Net Zero. It is essential to see leadership from Government that drives forward the mapping of skills currently in the oil and gas sectors, against the skills needed for the renewable energy sectors.**
- 51. The Cabinet Secretary has committed to using the levers available to address supply chain concerns. This Committee's recently launched inquiry will consider the issues in more detail, but we take this opportunity to emphasise the need for initiatives in the budget to support resilient supply chains.**
- 52. We look forward to seeing these priorities reflected in both the forthcoming budget and the new 10-year national strategy for economic transformation.**

**Economy and Fair Work Committee
November 2021**

Response from the Scottish Government, 15 December 2021**Committee Recommendation**

- 1. We recommend that the Scottish Government build on the portal to develop a one- stop shop approach for businesses, both online and by improved joint working between agencies, recognising that support must be tailored to local needs, including support in transitioning to Net Zero. It would be helpful to see a plan with timeframes to map progress and see this commitment reflected in the budget for 2022-23 by way of appropriate direction to the relevant bodies.**

SG Response

The Scottish Government is committed to ensuring businesses have access to the right information, advice and support at the right time to support them at all stages of their growth journey and in working towards Net Zero. We are working with partners to build a more streamlined, effective and easy to navigate public sector business support environment that places businesses at its heart and offers high quality, effective products and services. This work includes the ongoing development and improvement of the Find Business Support website and we will keep the Committee updated in terms of progress.

- 2. We recognise the vital role women play as part of our workforce; as employees, entrepreneurs and business owners, and we would like to see the establishment of a women's business centre prioritised in next year's budget. The Committee would be grateful for sight of the timeline for establishment and details of funding and how it will interact with existing agencies and Business Gateway.**

SG Response

We are committed to the development of a women's business centre approach to support women in achieving their business ambitions.

We have committed £50 million over the course of this Parliament and preparatory work is being undertaken now to establish the actions needed to overcome, and ultimately remove barriers to participation and unlock the full potential of Scotland's female business leaders and female led businesses.

The centre will be part of the wider system of business support, encompassing the public and private sector, adding value to existing provision. It will be vital to ensure the rest of the system 'steps-up' alongside the centre and provides the support that women need at all stages of the business journey.

Committee Recommendation

3. **Although not directly budget-related, we encourage the Scottish Government to ensure gender-disaggregated data on women's business activity and procurement in Scotland is gathered. This will be helpful when measuring outputs and disaggregation could also be considered more broadly.**

SG Response

SG do publish information on gender disaggregation for businesses in the Global Entrepreneurship Monitor (GEM) and in the Small Business Survey (SBS). In addition SG pay for a boost to the UK ONS Labour Force Survey to produce the Annual Population Survey (APS) to enable publication of gender disaggregation of those in employment in Scotland.

- The GEM research consortium has been measuring the entrepreneurial activity of working age adults across a wide range of countries in a comparable way since 1998. In 2020 the study conducted surveys in 43 sovereign nations and represents the world's most authoritative comparative study of entrepreneurial activity in the general adult population.
[uFXZR1iETPvscPQEx6dh \(natwestbusinesshub.com\)](https://natwestbusinesshub.com)
- The SBS is run by the UK Government's Department for Business, Energy and Industrial Strategy (BEIS) who publish UK level data tables. The Office of the Chief Economic Adviser (OCEA) in the Scottish Government undertake a Scotland level analysis using this dataset which includes gender disaggregation. The Scotland-level analysis focuses on Small to Medium-Sized Enterprises (SMES) with employees and this can compare results with UK and other UK regions. The Small Business Survey for Scotland is part of a UK-wide large-scale telephone survey of owners and managers of small and medium-sized enterprises (SMEs). This survey asks businesses if they are women-led (where a business has more than one owner, please state the gender of the majority of the partners or the majority shareholder). The Scotland publication outlines the key characteristics of SME employers in Scotland and provides an overview of their perceptions on a range of themes including innovation, fair work and access to finance. In addition, the report provides an insight into business performance and outlook.
- The APS is a continuous household survey, covering the UK. The topics covered include employment and unemployment, as well as gender, housing, ethnicity, religion, health and education. The purpose of the APS is to provide information on important social and socio-economic variables at local levels. The published statistics enable monitoring of estimates between censuses for a range of policy purposes and provide local area information for labour market estimates.
[Scotland's Labour Market: People, Places and Regions - Statistics from the Annual Population Survey 2020/21 - gov.scot \(www.gov.scot\)](https://www.gov.scot)

SG are also planning on how we can capture and publish more equalities characteristics including on gender for future SG published analysis on businesses and their employees. In addition we are also exploring how we can capture data on women owned businesses participation in public procurement going forward.

Committee Recommendation

- 4. The Scottish Government is asked whether it proposes to take any action to raise awareness of and promote the co-operative model, and if so, what funding will be made available for this.**

SG Response

We recognise the role co-operative and other alternative ownership models have in creating a fairer, stronger and more democratic economy. As per our Programme for Government, we will set out how we will provide tailored support for these models to increase their representation in the Scottish economy.

The Scottish Government already takes action to raise awareness of and promote the co-operative model through Co-operative Development Scotland, delivered by Scottish Enterprise. CDS supports businesses growth across Scotland by assisting in the creation of more Co-ops and employee owned businesses. This includes the promotion of the co-operative model, the direct provision of advice and information to start-up co-ops and the provision of training in co-operative business skills. We will continue to consider how support for such models can be brought into mainstream activity to ensure more values-led outcomes.

Committee Recommendation

- 5. We ask the Scottish Government to consider the suggestions made for managing business debt.**

SG Response

The Scottish Government has already implemented a range of measures to alleviate the financial difficulties affecting businesses as a result of the pandemic. For example, the loan ceilings under the Scottish Growth Scheme's two debt funds were increased from £100,000 to £250,000; their scope was expanded to include liquidity as well as growth loans; and fund managers granted capital and interest holidays where necessary, with the two funds acting as both crisis management and economic recovery measures for recipient companies.

In line with the conclusions of the Higgins report, *Financing Scotland's Recovery*, [Financing Scotland's recovery: analysis - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/financing-scotland-recovery-analysis/pages/12.aspx) The Scottish Government has supported calls to extend forbearance measures and flexible repayment terms, regularly monitors SME debt levels and meets monthly with Scottish Financial Enterprise and the main banks in Scotland to monitor trends in lending facilities and identify key emerging themes. In the event that these identify areas of concern, Scottish Government will work with UK government (Treasury,

British Business Bank) as well as other SG policy areas and enterprise agencies to develop an appropriate response.

Committee Recommendation

- 6. We call for a clear moving to Net Zero road-map for businesses, particularly smaller businesses, backed by practical support and non-loan-based funding in next year’s budget, to drive the necessary and sustained efforts needed to de- carbonise.**

SG Response

We recognise that businesses are at different stages of the net zero journey and will have different needs, which will require varying levels of information, advice and support from the Scottish Government and its partner agencies. Our enterprise and skills agencies provide access to a range of funding and support for businesses undertaking their own net zero transition, and we regularly review that support through ongoing engagement with the business community. The economic opportunities for our most innovative businesses is enormous, and growing, and we will continue to work with the business community to identify and tackle the obstacles to sustainable growth, both domestically and internationally.

The co-creation of Just Transition Plans will play a key role in enabling businesses to capture the opportunities of the net zero transition. These Plans will give businesses, workers and communities a clear sense of direction regarding how the economic opportunities and challenges of the transition will be managed.

Our National Transition Planning Framework is a world-first, and sets out an ambitious approach to working with others on the economic and social impacts of transition. It has co- design at its heart, meaning that we will ensure that those who stand to be most impacted by the transition to net zero – including the business community - are given a voice in determining their future. We are delivering our first Just Transition Plan as part of the refreshed Scottish Energy Strategy, with other sectors and regions of Scotland to follow.

Committee Recommendation

- 7. We call on the Scottish Government to encourage a consistent approach to conditionality for business support, to help drive the changes we need to see.**

SG Response

While employment law remains reserved to the UK Government, we will use the financial levers available to promote Fair Work and other Scottish Government priorities in Scottish workplaces. Through our Fair Work First approach employers are asked to commit to adopting the practices we want to see.

Subject to limits on devolved competence, we intend to further strengthen Fair Work conditionality. By summer 2022, we will introduce a requirement on public sector

grants recipients to pay at least the real Living Wage and to provide appropriate channels for effective workers' voice, such as trade union recognition. We will engage with unions, businesses and other stakeholders to agree the detail of this conditionality to ensure it is proportionate and effective in delivering real benefits.

Our ambition – shared with the Fair Work Convention – is for Scotland to be a leading Fair Work Nation by 2025. On 1 October, we launched a public consultation to gather views on the action needed to achieve this vision, and how we ensure Fair Work remains central to our economy. We encourage all employers, workers and others across Scotland to share their views. The consultation runs until 23 December and will inform a review of our existing Fair Work priorities, particularly in the context of COVID's impact on the labour market.

Scottish Enterprise was an early adopter of Fair Work First, and works to ensure that the jobs it supports through large grant funding are good jobs, paying at least the real Living Wage. In 2021-22, Scottish Enterprise has awarded 352 grants worth a total of £86.2 million (65% were large grants over £100k). Companies were asked to provide their Fair Work First status at application stage in 35% of these grants (78% of the total value of grants awarded). Where fair work criteria was applied, payment of the real Living Wage for all new and safeguarded jobs was a condition of grant. By the end of this financial year all of Scottish Enterprise's financial support to businesses will require a commitment to Fair Work First.

In its operating plan for 2021-22, Highlands and Islands Enterprise set out its commitment to apply fair work criteria to all financial support of £100k and over. In 2021-22 it has approved £18.99 million of grants, of which 73% (£13.925 million) have had the following fair work conditions applied: payment of the real Living Wage; action to tackle the Gender Pay Gap and create a more diverse and inclusive workplace; and no inappropriate use of zero hours contracts. In addition, from 1 April 2021, Highlands and Islands Enterprise has supported 261 organisations to adopt or embed fair work practices. Highlands and Islands Enterprise is making plans to extend fair work conditionality to all types of financial support to organisations in 2022-23.

South of Scotland Enterprise is focused on working to ensure that all successful applications for assistance from the agency are conditional on applicants embedding Fair Work across their organisations. In 2021-22, it has approved 139 grants worth a total of £11,347,735, with 100% of these grants having Fair Work First criteria applied, although it is recognised that recipients will start at different places on their fair work journey.

The enterprise agencies are also working together to consider a consistent methodology for capturing data and reporting on the application of fair work conditions.

Committee Recommendation

- 8. Given the importance of tourism to Scotland's economy, the Committee is keen that funding is secured for Phase 2 of the tourism recovery plan.**

SG Response

Tourism plays a vital role in Scotland's economy. VisitScotland's core budget is returned to pre-Covid levels and reflects the crucial work being done to promote Scotland as a destination and support the tourism sector, and as we begin to look towards how we achieve the aims of the Outlook 2030 strategy.

The aim of Phase 2 recovery programme is to support the rebuilding of the visitor economy in a responsible way, to ensure that tourism thrives and set Scotland's tourism and hospitality industry back on track to delivering the ambitions of Scotland Outlook 2030.

We provided a total of £25 million during 2021-22 to support 10 projects as part of phase 1 of the Tourism Recovery Plan. This funding came from Covid consequentials. These projects have had a positive impact on the whole sector to tackle the significant challenges faced as a result of the impact of Covid-19. We have been unable, at this time, to allocate any further funding in this budget to support the STERG proposals for phase 2 of the Tourism Recovery Programme. Unfortunately, with no further consequentials from UKG available, our hands are tied. We are grateful for the work of STERG and the Tourism Recovery Taskforce. Their proposals are still considered valid, and we will continue to discuss with STERG, VisitScotland and sector leaders how we can best support businesses in the face of an extremely challenging budget position.

Committee Recommendation

9. **We note a significant challenge for next year's budget may be to mitigate a reduction in Financial Transactions for support provided through Scottish Enterprise and to fund the Scottish National Investment Bank. We would like assurance that funding to replace any significant reduction in FTs will not be at the expense of other areas of economic development spend.**

SG Response

After the UK Spending Review published on 27th October 2021, we now have clarity on the FT allocation for the next three years, with £466 million received for use in 2022-23. In addition to this, we have used the flexibilities in the Scotland Reserve, with an additional £61 million made available to ensure that all key schemes and programmes such as Affordable Housing and capitalisation of SNIB are funded.

Within the overall FT budget envelope we are now able to provide an additional £6 million funding to SNIB and an increase of £15.6 million to support our enterprise agencies in 2022- 23.

Committee Recommendation

10. **On skills, we want to see a clear commitment in this budget to ensure wherever possible that our work-ready young people have access to**

training and support to equip them with the breadth of skills needed to match our vacancies.

SG Response

In November 2020 we launched the Young Person's Guarantee. The ambition of the Guarantee is to provide every young person aged 16-24 the opportunity of a job, apprenticeship, further or higher education, training programme or volunteering.

We know that for a successful recovery, and to ensure that no one is left behind, there must be a heavy focus on employability and skills, and that investment in new jobs will be key. As outlined in our Programme for Government, the Young Person's Guarantee will play an important role in this work.

Additional funding of up to £130 million in 2020 to March 2022 is supporting up to 24,000 new and enhanced employment, training and educational opportunities.

We will invest a further £45 million in 2022-23, working through local partnerships, FE, HE and the third sector. This support will be focused on disadvantaged young people who face the greatest barriers to accessing the labour market. The Guarantee is youth focused and employer led. We are encouraging employers to sign up to the Young Person's Guarantee, to create and invest in a skilled workforce. There are currently over 380 employers signed up, generating in excess of 7400 additional opportunities a testament to employers' willingness and commitment to make a difference.

Apprenticeships continue to play a key role in the career progression of thousands of young people and are a key way for all employers to continue to invest in their workforce, providing the skills the economy needs both now and in the future. Statistics published earlier this month showed that by the end of quarter 2 this year, there were 11,104 modern apprenticeship starts an increase of 7,471 on the figure for that period last year. As part of the recovery from the pandemic, we will build back up to 30,000 starts and assess demand to see how much further we can go.

Committee Recommendation

11. We call on the Scottish Government to demonstrate how the budget will support stronger links between employers and our employability services and the PACE programme and encourage employers to invest in their employees to develop the skills base.

SG Response

Our national employability service, Fair Start Scotland (FSS) provides 12-18 months of tailored, flexible, and person-centred pre-employment support to people who want help to find and stay in fair and sustainable work, but face labour market challenges. The service also works with employers to help with recruitment and to support their new employee by offering up to 12 months in-work support.

FSS Service Providers continue to establish new employer relationships in the face of a changing employability landscape post COVID-19. Their engagement includes educating and supporting employers on policies such as the Scottish Living Wage and the Scottish Business Pledge, while also promoting wider ambitions like Tackling Child Poverty and the Gender Pay Gap, by supporting people into fair and sustainable work.

As a result of Covid-19, FSS Service Providers have focussed their engagement activity on sectors where they identified increased demand, such as Health and Social Care. Service providers continue to deliver sector-based training, enabling participants with no prior experience to gain insight into specific areas of work and giving them the skills and knowledge to be able to apply for and secure jobs in these sectors.

In 2022-23, we have committed almost £24 million to the ongoing delivery of Fair Start Scotland to ensure that it is appropriately funded and provides vital support to those at the greatest risk of long-term unemployment.

We know that for those facing the greatest disadvantage, who are further from the labour market and facing multiple barriers, the journey towards work may be longer, more complex, and require access to an ongoing range of support services, alongside traditional employability and skills interventions. Through our No One Left Behind approach, and backed by more than £35 million in 2022-23, we are aiming to deliver person-centred employability support that is flexible and responsive to the needs of the individual, aligned with local labour market needs and opportunities, and embedded within a broad range of local-level service delivery, including, for example, housing, health, justice and wider advice services.

Our No One Left Behind investment includes £20 million to develop an offer of paid work experience support to those facing Long Term Unemployment (LTU). Through our existing partnership approach, we will provide public and third sector job opportunities to those aged over 25 experiencing LTU (defined as 12 months out of work) who would, without significant investment, struggle to secure employment in the open labour market. Each opportunity will include skills development and offer accredited, industry recognised training to ensure participants are equipped with the skills required by employers throughout Scotland. By providing paid work experience and training, this opportunity will prepare people to enter roles in sectors which are currently experiencing skills shortages, including health and social care.

PACE (Partnership Action for Continuing Employment) is the Scottish Government's strategic framework for responding to redundancy situations. Through providing skills development and employability support, PACE aims to minimise the time individuals affected by redundancy are out of work. Skills Development Scotland leads on the delivery of PACE support on behalf of the Scottish Government in conjunction with a number of key partners, including the Department for Work and Pensions and local authorities.

We will continue to work with the employer organisations and other organisations on the Ministerial PACE Partnership to take forward the continuous improvement

programme to enhance the operation of PACE, ensuring that the availability of support is promoted widely to employers and to individuals.

Committee Recommendation

12. Longer-term, we know there is a significant challenge in Scotland to ensure our workforce and businesses make a just transition to Net Zero. It is essential to see leadership from Government that drives forward the mapping of skills currently in the oil and gas sectors, against the skills needed for the renewable energy sectors.

SG Response

The Scottish Government is committed to achieving a transition to net zero carbon emissions that not only supports a climate resilient economy, but delivers fairness and tackles inequality and injustice. Central to our commitment to a Just Transition is ensuring communities and workers have the ability to retrain, upskill or redeploy their skills and transition to new employment opportunities in emerging sectors.

Published alongside the Climate Change Update, the Climate Emergency Skills Action Plan established our approach to supporting Scotland's labour force as we transition to net zero. The Plan's ambitions include supporting upskilling to meet emerging green jobs requirements; aligning work based learning, FE and HE provision to meet the needs of the net zero transition; and facilitating behaviour change and helping employers capitalise on opportunities.

The Plan is being shaped by an Implementation Steering Group comprised of senior representatives of central and local government and its agencies, skills providers, industry and independent experts. As part of CESAP's implementation, the Green Jobs Workforce Academy was launched, enabling individuals of all backgrounds at any stage of their career to consider how their skills and experience may be redeployed, and to access relevant upskilling/retraining opportunities. The Academy will also support the delivery of a skills guarantee for workers in carbon-intensive sectors, designed with industry stakeholders as part of our initial response to the Just Transition Commission.

The steps to date are seen as part of a wider programme of activity to respond to and support changing skills need. A Green Skills Hub is being developed to generate, analyse and cascade intelligence concerning the type and number of green jobs that may be needed over the next 25 years. In doing so, we will be able to enhance alignment between emerging skills need, skills system capacity and signposting opportunities to individuals.

As we make the transition away from fossil fuels, we know the oil and gas sector has a vital role to play in Scotland's energy future, and that this must be a just transition which supports good green jobs, skills and expertise. That was recognised in the recent Robert Gordon University review on UK Offshore Energy Workforce Transferability, with over 90% of the UK's oil and gas workforce having medium to high skills transferability and being well positioned to work in adjacent energy sectors.

We recognise that the energy transition will require the creation of a more flexible, more agile and more diverse energy workforce. Through our Energy Transition Fund we are also supporting the development of the National Energy Skills Accelerator (NESA), which will play a critical role to ensure the industry has access to the key skills and capabilities required - providing a “one stop shop” for industry to access courses, skills development programmes and R&D capabilities to train workers for the energy transition.

Committee Recommendation

13. The Cabinet Secretary has committed to using the levers available to address supply chain concerns. This Committee’s recently launched inquiry will consider the issues in more detail, but we take this opportunity to emphasise the need for initiatives in the budget to support resilient supply chains.

SG Response

I welcome the Committee’s inquiry into supply chain issues and note the invitation to give evidence in the New Year. Recent events, BREXIT, the pandemic and the blockage in the Suez Canal, have disrupted established supply chains and forced a fresh look at how to ensure supply chain resilience; the Committee’s inquiry is therefore very timely. Businesses across the country are considering how best to strengthen their supply chains. The public sector is doing likewise and I look forward to engaging with the Committee in due course.

Committee Recommendation

14. We look forward to seeing these priorities reflected in both the forthcoming budget and the new 10-year national strategy for economic transformation.

SG Response

Our forthcoming National Strategy for Economic Transformation will build on the Covid Recovery Strategy to create a greener, fairer and more inclusive wellbeing economy. The 10-year Strategy will help put us on the path to meeting our 2030 climate targets, helping restore the natural environment, stimulate innovation, create jobs, improve wellbeing for all and further embed fair work across the economy.