OFFICIAL REPORT
AITHISG OIFIGEIL

DRAFT

Economy, Energy and Fair Work Committee

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ECONOMY, ENERGY AND FAIR WORK COMMITTEE
27th Meeting 2019, Session 5

CONVENER

*Gordon Lindhurst (Lothian) (Con)

DEPUTY CONVENER

*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

COMMITTEE MEMBERS

*Jackie Baillie (Dumbarton) (Lab)
*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Jamie Halcro Johnston (Highlands and Islands) (Con)
*Dean Lockhart (Mid Scotland and Fife) (Con)
*Richard Lyle (Uddingston and Bellshill) (SNP)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Thomas Docherty (Which?)
Gary Gillespie (Scottish Government)
Norman Kerr (Energy Action Scotland)
Jonathan Lenton (Ombudsman Services)
Derek Mackay (Cabinet Secretary for Finance, Economy and Fair Work)
Kevin Quinlan (Scottish Government)
Richard Rollison (Scottish Government)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy, Energy and Fair Work Committee

Tuesday 1 October 2019

[The Convener opened the meeting at 09:47]

Decision on Taking Business in Private

The Convener (Gordon Lindhurst): Good morning, and welcome to the Economy, Energy and Fair Work Committee's 27th meeting in 2019. I ask everyone in the public gallery to turn off any electrical devices that might interfere with committee proceedings. We have received an apology for today's meeting from committee member Andy Wightman.

Item 1 on the agenda is to decide whether to take items 5, 6 and 7 in private. Does the committee agree to do so?

Members *indicated agreement.*

Pre-budget Scrutiny 2020-21

09:48

The Convener: Item 2 is pre-budget scrutiny. I welcome the Cabinet Secretary for Finance, Economy and Fair Work, Derek Mackay, along with Richard Rollison, the interim director of economic development, and Kathleen Swift, who is a business manager. I understand that Mr Mackay has a brief opening statement, so I will hand over to him before we come to questions from members.

Derek Mackay (Cabinet Secretary for Finance, Economy and Fair Work): Good morning. The 2019-20 budget sought to strengthen Scotland's economic prosperity against the backdrop of the United Kingdom's exit from the European Union. The Scottish Government remains ambitious for our country and the economy.

The 2019-20 budget plan has invested £5 billion to grow and modernise Scotland's infrastructure. We created the £50 million town centre fund, and provided resources to the Scottish Investment Bank precursor fund and financed its early activities. The programme for government will ensure that we work with partners across our economy to deliver investment, with the transition to net zero carbon emissions as its primary mission. We have invested £8.3 million to further progress the new manufacturing institute for Scotland, and £65 million has been committed overall. We are targeting up to £80 million in European funding to establish an advanced manufacturing fund to ensure that all parts of Scotland benefit from the developments in that field.

Over the next three years, we are investing £20 million to enhance and intensify support to businesses that wish to export, having published our export plan, "A Trading Nation—a plan for growing Scotland's exports", on 1 May.

Looking forward to the 2020-21 budget, the UK Government announced a one-year spending round on 4 September; however, without the tax announcements and the economic forecasts of a full UK budget, the spending round does not give us enough clarity on the funding available for Scotland in 2020-21.

The UK Government has not yet announced a date for its autumn budget. Exiting the EU, and a disorderly Brexit in particular, will be the biggest and most economically disruptive challenge that the Scottish Government has had to face. Prioritisation continues to be necessary to focus resource where it will have the biggest impact.

That is why it is important to undertake a spending review.

The spending review will focus on outcomes and wellbeing, in line with the national performance framework, and our strategic focus will be on addressing Scotland's long-term challenges, notably climate change and child poverty. Our economic action plan will be refreshed in the autumn to reflect progress in implementing measures and to reflect the new commitments that are included in this year's programme for government. Its aim is to help to build a strong, vibrant and diverse economy that promotes wellbeing and attracts investment. It is designed to support a competitive business environment, investing in a highly skilled workforce and nurturing the economy of the future. The actions in that plan will put Scotland at the forefront in transitioning to a carbon-neutral circular economy.

The Convener: Thank you. The first question is from Jamie Halcro Johnston

Jamie Halcro Johnston (Highlands and Islands) (Con): I want to look at the regional distribution of regional selective assistance. The objective of RSA is to reduce regional labour inequalities. Only last week, Scottish Enterprise told the committee that it was confident that RSA was achieving that objective. However, it took us three weeks to get the information that we requested from Scottish Enterprise; it arrived just after the committee had met.

In light of the data that we eventually received, can the cabinet secretary tell us whether he believes that RSA is meeting its objective of combating regional inequality?

Derek Mackay: I believe that it is meeting that overall objective. Incidentally, if there is any issue with a lack of information, I am sure that that will be taken up with the agencies. We have certainly reinforced the point that we expect information to come to committees in a timely fashion.

We believe that RSA is achieving that objective, but it is only one strand of the overall funding that is available to support businesses and jobs. As the budget for RSA, and its application, is demand led, that will partly determine where the resources are deployed. It certainly covers all of Scotland, and we believe that it is meeting that objective.

Jamie Halcro Johnston: Thank you—I appreciate your comments. The highest level of RSA grant is available at tier 2 for sparsely populated areas. That designation covers much of the Highlands and Islands region.

The figures that we eventually received from Scottish Enterprise show that there have been no RSA grants in the Highlands and Islands region for three years, in any of the local authority areas. Do you find that surprising? I appreciate that the assistance is demand led, but would you have expected that one of the areas that is most suitable to receive RSA would have had no grants at all in that three-year period?

Derek Mackay: First, I point out that there is a slight split in responsibility. For clarity, Fergus Ewing, as Cabinet Secretary for the Rural Economy, leads on the rural economy and is the lead minister in relation to Highlands and Islands Enterprise, while RSA is delivered by Scottish Enterprise.

We want to make sure that RSA can be deployed across Scotland but, because it is demand-led in terms of the projects that might come forward, I would not make a value judgment with regard to where projects are being delivered, as long as we are assured that it is being proactively promoted across the country and that the enterprise agencies, where appropriate, are signposting potential investors and companies to RSA in a way that means that companies and projects that meet the criteria will get it. I am assured that that is the case, even though it is fair to say that there has been no delivery in the fashion that you have suggested.

Jamie Halcro Johnston: You are confident that there is a demand issue in the Highlands and Islands, rather than businesses not being aware of RSA, or Scottish Enterprise not promoting it, or there being no regional collaboration between Highlands and Islands Enterprise and Scottish Enterprise. Is that correct?

Derek Mackay: Yes, because of the other grants and investments that are being made in the Highlands and Islands and because I know the level of joint working that goes on between the enterprise agencies.

Would I like to see further distribution of RSA across the country? Of course. I think that we share that goal. However, the issue that you highlight is not down to any systemic failure; it is down to demand and the issue of projects meeting criteria and being delivered on the ground.

To go back to my earlier point, RSA is just one of the tools in the toolbox that can help economic growth in the country.

Jamie Halcro Johnston: I appreciate that, but what you say suggests that there is no demand for RSA from the Highlands and Islands. Why is demand not high?

Derek Mackay: It might be to do with the nature of the criteria for investment. No company has said to me that it tried to pursue RSA and that there was a lack of awareness or effort to try to secure grants for companies in the Highlands and

Islands. Again, Fergus Ewing covers this area but there is an expectation that Scottish Enterprise, as the lead agency, would be proactive in trying to ensure that RSA was deployed, if that was the most appropriate financial mechanism to support that business growth.

Jamie Halcro Johnston: When you saw the figures that showed that there had been no grants in the Highlands and Islands for three years, did you ask Scottish Enterprise—which is answerable to you—to clarify why that was the case? Have you spoken to it about the demand in the region?

Derek Mackay: RSA is just one specific funding stream. I look at all the funding streams and ask what their collective efforts are towards growing the economy, sustaining jobs and building new developments.

Jamie Halcro Johnston: Surely you would have had concerns that one quite important stream had made no grants in a suitable area in three years, and you would have asked questions about that.

Derek Mackay: I understand your point, but I am trying to reassure you that I am satisfied by the processes and actions that are in place. If there was a company or a project that met the criteria, I am quite sure that it would get the funding. I am reassured by that and by knowing that there is a range of tools that can be deployed to support our economy.

With regard to RSA, there are possibly issues around scale, around the location of most of the manufacturing base in the country and around where various sectors feature across the geography of our country. For example, tourism is a bigger sector in the Highlands and Islands than elsewhere, so I would expect more support to come from VisitScotland than one strand of the funding stream in the enterprise family.

I understand the point that is being made and I expect the enterprise agencies to be proactive with regard to ensuring that there is a distribution of funds. However, it is not as if there is a formula that involves spending a set amount of funding across the country on a per-head basis. Where the money is spent depends on where the applications come from and involves a consideration of the criteria and the projects. Further, the fact that some items of RSA can involve technology or plant means that it will be more relevant in areas of the country where manufacturing operations are based.

Jamie Halcro Johnston: I appreciate that, and I am encouraged that you are reassured about what is happening. However, I am trying to find out why you are reassured, other than the fact that you are confident that Scottish Enterprise is doing its job and that there are various criteria that might impact on the number of applications. Has there been any correspondence with Scottish Enterprise to get its assurances about why this situation has come about?

Derek Mackay: If the committee feels that it is not satisfied, I encourage it to return to Scottish Enterprise, as the lead agency, and pose those particular questions about what it is doing to ensure awareness and appropriate delivery of RSA. I am reassured that Scottish Enterprise would be proactive. Why would it be in the interests of Scottish Enterprise not to support companies and not to deliver that assistance?

In the context of RSA, bear it in mind that Highlands and Islands Enterprise has provided £89 million of financial assistance to businesses over the past five years. My point is that RSA is just one part of the financial support and it has to be seen within the global context.

10:00

I am reassured, because I see no reason why SE would not try to encourage companies right across the country to benefit from RSA. It might be down to the nature of the funding or where the manufacturing base is, or it might be that other tools are more appropriate to the Highlands and Islands. We should bear it in mind that many employers in the Highlands and Islands may be of a smaller nature, and that other financial tools might therefore be more appropriate.

Jamie Halcro Johnston: As you say, Highlands and Islands Enterprise is the lead enterprise agency, but it does not administer RSA. Are you content that the collaboration between SE and HIE is good enough?

Derek Mackay: I am.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): I will return to the issue of regional imbalances, but in an Ayrshire context. I for one was pleased to hear about the change in direction that Scottish Enterprise told us about last year. Steve Dunlop reminded us last week that there are difficulties in selling investments in the Ayrshire economy, for example, compared with Edinburgh or Glasgow. How do you see us resolving that issue? What are the keys to turning around the Ayrshire economy to allow us to get more on a par with Glasgow and the rest of Scotland?

Derek Mackay: That goes wider than the interventions of the enterprise agencies. One aspect is infrastructure, whether that is transport or digital. There are growth deals, which we want to cover every part of the country—indeed, there is the Ayrshire growth deal as well as other financial mechanisms. In the fullness of time, the Scottish national investment bank will be able to invest, too. Having a competitive tax regime is good for the entire country, and we are investing in the key strands of the economic strategy around internationalisation, innovation, infrastructure and the inclusive growth agenda. When it comes to enterprise grants and the enterprise family, the agencies can of course try to stimulate demand, focusing on place and saying that different parts of the country should be considered for investment.

In some matters, however, we have to follow the economic opportunity of where businesses want to go. A particular success story at the moment is at scale, with Barclays Bank creating more than 2,000 new jobs in Glasgow. Barclays is now also very much involved in Ayrshire and Kilmarnock, I understand. That is an example of establishing where investment is desirable and where it wants to go, and we can see if we can get more of the economic benefits to spread beyond the big cities—although the cities are important. The economic strategy tries to support the whole country in a range of ways.

I am very mindful of scale. Twenty jobs in a more rural or peripheral community could be massive compared with 20 jobs created in the cities of Edinburgh, Aberdeen or Glasgow. That is why we are trying to target efforts towards towns and rural communities as well as the cities.

Richard Lyle (Uddingston and Bellshill) (SNP): Good morning, cabinet secretary. As you say, companies can dip into many funds but, concentrating on RSA, do you believe that the RSA grant appraisal process is fit for purpose, given that some firms that have been in receipt of RSA funds have experienced trading difficulties?

Derek Mackay: Let us be clear: a company should not be getting RSA if it is distressed, so to speak. There are other things that the Government can do to support a company that is in financial distress. RSA should be about sustaining jobs, securing new jobs or investing in infrastructure. However, some companies have got into difficulty subsequent to receiving RSA. The question is then asked whether the Government was trying to help a company that was in difficulty. There are different levers that can be pulled and different interventions that we can make but, for a company to receive RSA, Scottish Enterprise must be satisfied that the venture has a reasonable chance of success. All the due diligence would be carried out, if that is of assistance.

Richard Lyle: A company that is applying for RSA should promote the number of jobs that it plans to bring to the area, wherever that might be. For example, I am sure that we would want to encourage people in the Highlands and Islands to apply for it. However, should the RSA system itself be reviewed?

Derek Mackay: As I said in last week's debate on the proposed Scottish national investment bank, we will have to look at the range of available financial products, reflect on them and decide whether that range is appropriate or needs rebalancing. I also want to simplify it as much as possible. We might come back to that point in relation to how the Government supports businesses, because I want to talk about how we are also pursuing the idea of having a single portal. It think it right to look at the range of financial products that we have, to decide what the appropriate balance might be for the future. However, we would also have to respond to the economic situation at that time, such as where we might be with Brexit and with demand, and what the banks might be doing. Again, we might return to that point in our discussion on Brexit preparedness.

To go back to the premise of Richard Lyle's question, RSA should be about protecting and growing jobs and not about bailing out a company that is in difficulty. Due diligence has to be done, and a company has to be viable and its project worthy of support. An appraisal process is in place to deal with those aspects. However, for whatever reason, it is not impossible for a company to get into difficulty after it has received RSA, at which point we would have to return to it and look at grants, potential clawback and, where appropriate, further Government action. Of course, we would have to comply with the law and state aid legislation as it existed at that time.

Richard Lyle: Should Scottish Enterprise and Highlands and Islands Enterprise review their practice on RSA and consider how they might improve it? As you have said, various firms have promoted and brought jobs, or have improved the prospects of doing so, so we know that RSA has done a lot of good. Sadly, no one can tell what the future—or even tomorrow—will bring. There have been situations in which companies that were doing well at the time have received RSA and then, perhaps a year down the line, have hit a financial wall when no one would have predicted it. Could Scottish Enterprise and HIE do more to review and improve their approaches? What discussions would you have with them?

Derek Mackay: Let me separate that question into two component parts. First, as I have said, I think that we need to review all our financial products anyway. We will now have to do so because of the economic turbulence that we face and, more positively, because we are developing a national investment bank. We should always be looking at such products and asking what the criteria for each of them should be and how we should respond to the needs of the economy.

My second point is that I do not think that we have to do that because there is an issue with the appraisal mechanism for RSA. Unfortunately, not every company will be a success. Although a risk analysis will always be carried out, some companies will succeed while others will fail. We will never resolve that issue; we should focus instead on what financial products are available and on responding to both the challenges that we will inevitably face and the opportunities that exist in the economy. I am engaging with the family of enterprise bodies on that.

Richard Lyle: You will have your critics, but do you believe that all the things that we are doing have the potential to improve the economy of Scotland?

Derek Mackay: Yes, of course. My ministerial colleagues and I have visited many companies that, if it had not been for RSA, would not have grown, kept jobs or indeed invested in Scotland at all. I am sure that committee members share a passion for supporting high-quality jobs and creating new ones, which I believe RSA has been achieving.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Deloitte recently published a report entitled "Power Up: UK-Wide Growth: unlocking productivity across UK regions and nations". Its main findings on Scotland stated that

> "productivity growth in Scotland has outperformed the UK average in recent years, closing a previous gap. The ONS data positions Scotland's output per hour worked at 99.8% of the UK average".

What impact has RSA had on the productivity of recipient companies?

Derek Mackay: We are focusing on productivity. CBI Scotland and KPMG have just launched a new productivity index—I was at the launch—and there has been a real focus on productivity. We have performed better over the period of devolution than the rest of the UK, but we certainly lag in comparison with international standards, so of course we want to improve on that. There are many areas of intervention that will make a difference here, whether they are around innovation, digital or a skilled workforce.

Given the specific criteria of RSA around the safeguarding of jobs, it does not necessarily enhance productivity in itself, although the safeguarding of jobs is a good thing nonetheless. However, if a grant contributes to plant, machinery or technology, that should enhance productivity. If the primary objective is to safeguard jobs and deliver new, high-quality jobs, that is a good thing and it may well help with productivity, but it is important to understand the definitions of productivity. Simply having more people might not in itself help with productivity or output per hour, but some of the other strands of RSA should and may well help with productivity.

Productivity is a wide area and it is not just about RSA. If we focus only on RSA, we miss a hell of a lot more in terms of support for our economy that is supporting the productivity challenge that we face in our country. I should say at this point, though, that it appears that productivity progress is being impeded because of Brexit. Companies are putting more effort into Brexit preparedness and caution around investment than they are putting into the productivity challenge. We should keep a close eye on that.

I think that Jackie Baillie is disagreeing with that point. She might want to ask the chief economist about it when he is here for the next agenda item.

Jackie Baillie (Dumbarton) (Lab): I will be happy to ask you later, cabinet secretary.

The Convener: Cabinet secretary, could you also watch your language?

Derek Mackay: What did I say?

The Convener: I am not going to repeat it.

Derek Mackay: I am not sure what I said, convener, but I will watch for whatever it was.

Gordon MacDonald: I will be careful about what I say, because I have no idea what you said, either.

The Convener: I think that you said something like "What the hell". That could be offensive to certain people.

Gordon MacDonald: Anyway, to continue, the last time RSA was reviewed, the report stated:

> "The most common effects were on productivity and sales growth, improved efficiency of machinery and the introduction of new or significantly improved products and processes."

That report was on the period 2000 to 2004. When are we likely to see the outcome of the review that is under way? Do you think that it will be similar to the outcome of the previous review?

Derek Mackay: I ask Richard Rollison to comment.

Richard Rollison (Scottish Government): You are perhaps referring to the review that Scottish Enterprise is doing across a number of grant products. I think that it is due to report on that towards the end of the year. It may have provided some initial findings to the committee already.

Gordon MacDonald: You touched on the Scottish productivity index, which was launched recently, and on the need for skills. The launch of the index highlighted the need for prioritisation of investment in management and leadership skills plus a need for everyone in the workforce to be given basic digital training by 2025. Given that the Enterprise and Skills Strategic Board has tasked the enterprise agencies and the skills agencies with collectively improving productivity, working with industry and businesses, what are the enterprise agencies doing to tackle that challenge?

Derek Mackay: They engage with individual companies and they can come up with bespoke packages for them around management, training or expertise. Sometimes, support for businesses involves bringing in expertise. In the current Brexit preparations, there is particular grant support to bring in expertise for preparations for Brexit. As I said, the enterprise agencies can support companies on training. Research and development is important as well, and we are increasing the support for that.

However, the CBI and KPMG work also projects responsibility on business. A lot of businesses are struggling to get by, but they need to look to the future and invest in quality, management and training. In all that, there is a responsibility for businesses to look at their structure and see what support is available, including from Skills Development Scotland. There is a response around management challenge, quality, skills and reskilling—support is available for that.

10:15

Jackie Baillie: Given the cabinet secretary's invitation, I will ask about the productivity challenge. He will remember—it was not his responsibility but that of one of his predecessors—the target that was set to move Scotland's productivity from the second to the first quartile of the Organisation for Economic Co-operation and Development's index. However, during the period that the target was in place, Scotland fell to the third quartile. I am sure that the cabinet secretary will confirm that that was during a period when Brexit was not even a twinkle in anyone's eye. We have not done well with productivity, despite the Scottish Government target, and that has nothing to do with Brexit.

Derek Mackay: I know that Jackie Baillie is against Brexit, too. The point that I was making is that the current intelligence—I was given the most up-to-date position—says that gains made on productivity will be lost and impeded by Brexit uncertainty. I will talk about the past in a minute, but it is important to say that we can make progress only from here into the future and we cannot change the past. Productivity gains are being lost right now and will continue to be lost because of Brexit uncertainty.

In the past, there was also a financial crash and a downturn in the oil and gas sector that impacted the economy and productivity, so there are reasons for those statistics. However, we have done better than the rest of the UK over the devolution period, but not as well by international standards. The most recent statistics have shown a better performance in relation to the rest of the UK.

Jackie Baillie: Your ambition is pretty low if all you do is compare Scotland to the rest of the UK at a time when its productivity performance has been particularly bad. To inform the future, you need to understand the past and why we failed to increase productivity. Simply blaming it on Brexit will not get us there.

Derek Mackay: I was trying to express that we cannot change the past. However, the most recent figures say that, in quarter 1 of 2019, productivity growth in Scotland was 0.4 per cent, following growth of 0.2 per cent in quarter 4 of 2018. In the year up to quarter 1 of 2019, productivity in Scotland grew by 1.1 per cent compared with a fall in productivity of 0.2 per cent for the UK as a whole. Over the longer term, between 2017 and 2018, productivity in Scotland grew at the average annual rate of 1 per cent compared to the UK average of 0.2 per cent.

I agree with Jackie Baillie that we do not want to just match the UK; we want to perform like the small, advanced, independent economies around the world that have done much better than the UK and Scotland. That is true, Jackie Baillie—that is what I aspire to.

Jackie Baillie: Convener, I love the cabinet secretary's ambition, but Scotland remains in the third quartile for the OECD indicators. That does not sound terribly positive.

Derek Mackay: That is why our economic strategy—with more on innovation, internationalisation, infrastructure, quality, upskilling and reskilling—will make a difference with the productivity challenge. However, the greatest threat to our productivity opportunity and challenge is the one that we face from Brexit.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Earlier this morning, you referred to RSA being demand led. Scottish Enterprise's written submission highlights its demand stimulation activities with regard to RSA. What are your views on the role of Scottish Enterprise in trying to influence or create demand for its products?

Derek Mackay: Scottish Enterprise is being proactive through its communication systems. It can respond to individual economic circumstances with bespoke packages of support, and it signposts to the most appropriate financial support or opportunity.

From all that, I am reassured that Scottish Enterprise is promoting what is available. I want to simplify the range of assistance that we have for businesses, which is why I am supportive of the single portal. Businesses come in once, and it is up to the enterprise agencies to organise the appropriate response and package of support for an individual applicant or company. That is why the diagnostics behind front-facing business support will be so important.

Colin Beattie: If Scottish Enterprise is trying to create or influence demand for its products, is there a risk that there could be a mismatch between the products that it offers and what the market is looking for?

Derek Mackay: That is not impossible, but it must lead to the ability to be agile and adept in changing the criteria or products—keeping the principles but responding to what the economy and businesses want and need. I have seen that. One example, at scale, is Michelin. As we know, the company decided to cease tyre manufacturing at its plant, but we were able to convince it to stay. We looked at the appropriate package of support that would be right for that investment, even though the company would not necessarily be making the specific product that it had made in the past.

I see that agility in the enterprise family. The same goes for Skills Development Scotland. The biggest challenge for businesses is skills and availability of people, so it is important to align skills and Skills Development Scotland with financial assistance, which is what the committee is focusing on this morning.

Colin Beattie: You have highlighted specific cases, such as Michelin, where there has been flexibility. However, those are high-profile cases where we would hope there would be flexibility. How do we ensure that there is no mismatch between what an ordinary, Joe Bloggs company is looking for and the off-the-shelf products that Scottish Enterprise, which has its targets, is pushing?

Derek Mackay: I remind you that, over the past five years, nearly 400 companies have benefited just from RSA. There is a wide range of financial products available to support businesses. However, I am reassured that we can create bespoke packages and engage with companies to design the financial support that is right for them. It can be bespoke; it can be tailored to the needs of a business. If particular funds are not successful, we can look at the criteria or discontinue a fund in order to expand other things. I have seen that approach take place.

Colin Beattie: Therefore, you are satisfied that, even in the day-to-day activities around RSA, there is flexibility to allow companies to get a product that is tailored for their specific needs and their sector.

Derek Mackay: If you are asking specifically about RSA, criteria are set for it, but I am talking about the overall package across the system. No company would go into Scottish Enterprise and say, “I am interested only in RSA”. People say, “How can you help us?” Therefore, the full toolbox is appropriate.

With responsibility right across this area, I want to ensure that there is alignment and cohesion and that we make it as easy as possible for companies to get the widest range of support. That goes beyond just one enterprise agency. As I said, it might be skills or it might be VisitScotland. We support a company in ways that are sensitive to its individual needs. We deliver a tailored package to a company. If it is of assistance to the committee, I can come back with individual examples of how we have done that.

Colin Beattie: That would be of interest.

The strategic direction of Scottish Enterprise is shifting to a broader support role for businesses, to help create quality jobs and tackle inequalities. However, in this month’s *Business Insider*, Jack Perry, the former chief executive of Scottish Enterprise, revealed what were certainly frustrations, and possibly disagreements, on Scottish Enterprise’s current direction. He stated that he believed that the new strategy is based on

“political rather than economic goals.”

and that Scottish Enterprise is

“creating the conditions for more disappointment in future.”

What are your views on those comments?

Derek Mackay: Jack Perry is entitled to his opinion. I think that it is good if the enterprise agency is responding to the strategic guidance and to the national performance framework.

I remember attending this committee for the first time after taking on responsibility for the economy portfolio. I said that I wanted to respond to the committee’s report on support for businesses and the economy ,and to the consensus that exists in Parliament. That means ensuring that the enterprise agencies respond to political direction. Every member of the committee is political. We are trying to ensure that we support the economy in an inclusive way. Of course, that has moved on. Clearly, the politics of the climate emergency will feature in our policies going forward. The enterprise agencies have a clear economic function, but they also need to understand the political direction of the country, on which I have tried to act consensually.

The themes that the committee reinforced included support for businesses, no matter what their scale; place, which you have emphasised again this morning; the pursuit not only of what some would describe as inward investment at scale but of businesses that can grow in Scotland; and a focus on jobs. The committee has agreed with that direction of travel, so I will defend Scottish Enterprise's plans because they reflect what we seek as a country, as a Parliament and as a Government.

Colin Beattie: In adopting a broader approach to support, is there a danger that the product offer might be diluted?

Derek Mackay: No. It will be more sensitive to the opportunities that exist. Scottish Enterprise can achieve at both scales; it has helped to attract investment at scale, such as that from Barclays with over 2,500 new jobs in Glasgow, but it can also support smaller business that want to develop.

Bearing in mind that we had the lowest unemployment levels in history at 3.2 per cent—although the level is now increasing because of Brexit—if our focus is on jobs, then that direction and investment have been worth while. I do not think that the offer will be diluted.

I am also mindful of the committee's work on Business Gateway, and that the committee specifically charged me with ensuring deeper integration between its services and the enterprise agencies, and with focusing more on that agenda. It is hard then to criticise the enterprise agencies for responding to the agenda that the committee put forward in its recommendations, which I have supported.

Colin Beattie: Again, given the broadening of the approach, one would think that more resources would be needed. Are adequate resources in place?

Derek Mackay: I believe so. On the internationalisation strand, we have allocated new resources to the export strategy. We have a three-year plan with an allocation of £20 million of additional resource.

It is also important to restructure and reconfigure what the enterprise agencies do, because I want to be as efficient as possible. Resources within the enterprise agencies have been recalibrated, which has redirected them towards our priorities.

The offer is not just broadening—it is deepening; we are doing more on digital, the skills gap and gender. There is additional funding for innovation for initiatives such as the national manufacturing institute for Scotland and the advancing manufacturing challenge fund. There are very specific resources to help us with the key strands of the economy strategy and there is an expectation that the enterprise agencies will be more efficient. I remember giving evidence—I think that it was to the Economy, Energy and Fair Work Committee—that some of the savings in Scottish Enterprise were operational savings that have been made in order to target more resources at the front line.

10:30

Dean Lockhart (Mid Scotland and Fife) (Con): Last week, an Audit Scotland report highlighted that, last year alone, the Scottish Government lost £135 million in failed investments and interventions. That is roughly half the entire Scottish Enterprise budget, and is more than has been paid out under the Scottish growth scheme in the past three years. Does the cabinet secretary recognise the real concerns about the amount of taxpayers' money that has been lost in those failed investments? What financial return does he expect to receive from that £135 million investment? How will he measure the return on that?

Derek Mackay: I am not sure how the workers at Ferguson Marine Engineering Ltd—of which there are more than 300—Prestwick Airport Ltd or Burntisland Fabrications would feel about hearing the Conservatives describe them as "failed" ventures.

Dean Lockhart: That is how Audit Scotland referred to them in its report. It also highlighted that £135 million has been written off in the past year alone. I am not second guessing the merits of the individual interventions: I am asking how you will measure the financial returns on that £135 million.

Derek Mackay: I am sure that, in asking the question, Dean Lockhart understood that it was investment in those companies that the Auditor General was talking about. Incidentally, the money has not been written off, but written down. There is a distinction between the two. Also, it is not impossible that the value of an investment will go back up.

I say again to the Conservatives: know what you are criticising, when you criticise. I have been perfectly clear that the Government has made those investments—having been through due diligence—in companies in order to allow them to have a future. Specifically, those companies are Prestwick Airport Ltd, BiFab and Ferguson. If members say that we should not have invested in those companies, that is their opinion. However, it has been the view of the Scottish Government that the interventions were right at the time. We went through due diligence. Of course I want those interventions to be a success and to give a return to the taxpayer, but if we had not made those interventions many hundreds of jobs would have been lost and could not have been recovered.

The Government is using its fiscal powers to invest in the country and support the economy. There is always risk in such investments. However, I hope that in all those examples, the situation will be turned around. I hope that BiFab will achieve a supply of work, that its employment numbers will go back up and that the company's finances will be strengthened. I hope that Prestwick has a viable future. My position on Ferguson Marine is well understood: I believe that that Clyde shipyard has a future.

That is the reason for the write-downs. It was right for the Scottish Government to intervene and we are accountable for the resources that we have deployed.

Dean Lockhart: The concern is about the policy approach that has been taken by the Scottish Government in intervening in certain areas. Last week, Audit Scotland said that the Scottish Government

"has not developed a clear framework to outline its overall approach to financial interventions in private companies."

The committee has heard evidence time and again that "inclusive growth" is ill defined and is not fit to shape policy intervention. The interventions appear to be ad hoc, rather than being part of a coherent economic policy approach. In evidence on the Scottish national investment bank, we heard that inclusive growth as a concept, which is part of the Scottish Government's overriding strategy, is not defined. In addition, the Fraser of Allander institute has called for more "clarity of focus" in relation to the Scottish Government's economic policy. On things such as inclusive growth, which means different things to different people, and intervening in the economy, when will we see more clarity in your economic policy?

Derek Mackay: On whether financial interventions are sometimes ad hoc, I say of course they are, because we do not necessarily know where the economic difficulties will come from, or which companies might get into trouble. That was my point when I was being pressed earlier about whether the Government can tailor an economic intervention to the specific circumstances of a company.

That speaks to the point that we can have an economic strategy that focuses on increased prosperity and greater equality, with strands of internationalisation, innovation, the inclusive growth agenda, fair work and infrastructure. However, for some companies that have required Government support, an ad hoc financial intervention has been the right thing to do.

It is not true to say that there is no framework, or that there is no due diligence or commercial advice. Every financial intervention that we make has to be within the law. Our investments have to consider what is in the "Scottish Public Finance Manual". They all have to meet due diligence, offer value for money, and meet state aid rules and market economy principles. A range of documents is used to guide investment decisions, so I disagree that there is no framework or context in which decisions are made.

There is also a political decision and determination to be made on whether the Government and its agencies are willing to step in to save jobs and invest in the economy. We choose to say yes when we believe that it is appropriate to do so. That has borne fruit in terms of saving companies, allowing other investments to be made and saving hundreds of jobs across the country, which I think has added to the range of businesses that operate in our country.

We have had the debate about the issue of inclusive growth before, and I think that the definition is clear. Of course, there is an even greater focus on sustainable economic growth. Inclusive growth is defined as

"growth that combines increased prosperity with greater equity, creates opportunities for all, and distributes the dividends of increased prosperity fairly."

I think that that is evidenced through the fair work agenda—we are focusing on place and we are tackling inequality, as we ensure that there is investment.

The real driving force in our economic strategy is largely to do with jobs and ensuring that they are distributed and remunerated as fairly as possible. I believe that the very strong policy context is the economic strategy and the economic action plan that I published last year, which I will refresh shortly.

Dean Lockhart: I have one brief follow-up question on inclusive growth. Do you have any plans to develop the definition? All the enterprise agencies told the committee that it means different things to different people and that they cannot measure it precisely. If you are telling me that you are finished with the definition, I contend that it is not an economic definition that we can measure, and nor can we measure any changes.

Derek Mackay: Let me try to find a point of consensus with Dean Lockhart. I think that the definition is fine, and the national performance framework clearly sets out purpose, values, indicators and outcomes. I know that the purpose and definition must be okay because Murdo Fraser sat on the cross-party group that helped us to characterise and define the purpose. All parties were represented on the cross-party group. I therefore think that we have a purpose that achieved a great deal of consensus in Parliament, across the parties.

I think that the definition is clear, but how it is expressed by way of actions is really helpful. That is where the economic action plan comes in, as does the detail on what a fair work agenda looks like, on how we spread the wealth in our country, on how we tackle wellbeing and on the outcomes focus. All of that is covered in more detail through the actions. Maybe the point of consensus is that if we can show further actions that help us to achieve the purpose, that will be helpful for all.

Willie Coffey: Prestwick was mentioned. I have to speak up for the airport, as an Ayrshire MSP. It is unthinkable what could have happened to the wider Ayrshire economy, had that intervention not taken place. I thought that it had broad support in Parliament—it certainly has the support of John Scott, who is the local member. He has championed the airport for many years and continues to do so.

I have a brief question on the strategic direction issue that Colin Beattie raised. Have the growth deals been the catalyst for the emergence of the new regional economic partnerships? I do not think that there is detriment to the former growth sectors that Scottish Enterprise previously focused on, and I am delighted with the change of approach. Have the growth deals played a key part in rethinking that approach, and do they link in with your overall economic strategy for Scotland?

Derek Mackay: Growth deals have been an iterative process, with each one developing over and above the previous one, so they have changed in shape. The first deal, which was for Glasgow, was initially a lot about infrastructure, and latterly has been a bit more about inclusive growth. The Edinburgh and Lothians deal has been more about economic opportunity and data, and the Ayrshire deal is a mixture of infrastructure and other job-creating opportunity.

The deals are all quite different. They have been negotiated between the local authorities, the Scottish Government and the UK Government, and the financing package varies from one to the next. The deals have helped us to bring together regional partners to discuss what investments might be right for a region. Of course, as a consequence, there has been financial leverage as well as improved relations with academia and the business community.

Could the approach be better? That is possible. Perhaps a more systematic approach could be taken, but we can address that through regional economic partnerships. Of course, we want growth deals to cover the whole country. A sizeable chunk of money will now feed through the growth deals to help us to stimulate the economy. Partnerships are undoubtedly stronger as a result—partnerships between local authorities as well as those with Government. The growth deals are absolutely part of the economic strategy, in particular in relation to themes such as innovation and infrastructure.

For the avoidance of doubt, I point out that Michael Matheson leads on growth deals.

The Convener: Last year, the committee noted that the enterprise agencies

"set and mark their own homework."

In response, you said:

"The Strategic Board's Analytical Unit is developing a measurement framework".

Since then, evidence to the committee has suggested that not a lot of progress has been made on that. Can you give us an update on that?

Derek Mackay: There has been good progress. I can mention some of the indicators, but a more detailed assessment of performance will be provided to the Enterprise and Skills Strategic Board in the annual report, which is due in January next year. I believe that progress has been made on setting the indicators, rather than just allowing the enterprise agencies to do that for themselves. The indicators will include spend on research and development as a percentage of gross domestic product; the value of international exports; workplace learning in the past three months; the percentage of establishments with skills-shortage vacancies; the gender pay gap; employees earning less than the living wage; carbon footprint; school leavers' qualifications; and high-growth businesses as a percentage of all enterprises.

My understanding is that the strategic board approved the framework in March and that the board has received quarterly updates on performance against those high-level indicators in the framework. As I say, further information should be forthcoming.

Jackie Baillie: The cabinet secretary mentioned our business support inquiry, but I want to press for a bit of detail on Business Gateway as part of the wider enterprise support system. What progress has been made on that? You mentioned the single portal or entry point for enterprise support. When do you expect that to happen?

Derek Mackay: That is a good question, because those two issues are connected. I looked closely at the committee's report on Business Gateway and I have engaged with local government, because I recognise that because

Business Gateway rests with local government at the moment, whatever I do I should do in partnership. I have met the Convention of Scottish Local Authorities economy spokesperson, Councillor Heddle, and I have raised the issue at my meetings with the resources spokesperson, Gail Macgregor. There has been communication. I understand that COSLA leaders are considering the approach to Business Gateway. Part of the committee's critique was that the provision feels a bit patchy across the country and could be better connected with the rest of the enterprise family's operations. There is a lot of merit in that and the best way to address the issue is to connect it with the work on the single portal. That relates to Jackie Baillie's second question.

10:45

In bringing together the complexity of financial products and various forms of support for businesses, my aspiration is to make it as easy as possible for businesses, no matter their scale—small or large, start-up, set-up or scale-up—to have one point of entry, with the system working to give back the appropriate support for the organisation or company. That is my ambition for the single portal.

There is complexity out there—we have Skills Development Scotland, the enterprise agencies and the universities, which, through Interface, connect academic and innovation opportunities with business. My ambition is to bring all that together and ensure that Business Gateway is part of it; I want to bring it with me on that journey. My first impression is that it is up for being part of a whole-system approach, which is very welcome.

Scottish Enterprise might be able to say more about the detailed timescales, but my last update was that the ambition should begin with a beta version of the system, which will be ready by the end of this year. That is the first stage of bringing everything together, and it will provide customers with the ability to see and access the most commonly searched products and services that are offered across the main enterprise and skills agencies, and on Business Gateway's national site. It would be good to bring all that together and to have as much as possible on the system next year.

The engagement with Business Gateway has been positive so far, but because of the nature of that local government function, I am trying to do things in partnership with it rather than instruct it. I am sure that there would be some sympathy for doing that, but that would not be a partnership approach. I will certainly update the committee if Business Gateway is not coming in with us on that national project.

Jackie Baillie: That would certainly be very welcome from the cabinet secretary.

I want to turn to the Scottish-European growth co-investment programme. That was part of the £500 million Scottish growth scheme, which was announced to considerable fanfare by the First Minister and, indeed, welcomed across the chamber. I think that the cabinet secretary would agree that there have been very disappointing numbers accessing funding from the £200 million co-investment programme budget. In the first year, there was one project and in the second year, there were two more companies. The total SE contribution was £3.2 million of the £200 million overall expected budget. That was the case in June 2019.

What is the case now? Are demand stimulation activities in place and bearing fruit? The cabinet secretary will appreciate our concern, because the self-same enterprise agencies are going to stimulate demand for the proposed Scottish national investment bank. If they cannot do that for that programme, how can we be confident that they will do it for the new bank?

Derek Mackay: I will give the information that I currently have in answer to Jackie Baillie's first question.

On the overall £500 million from the Scottish growth scheme, the scheme is demand led and, to date, 233 companies have received £149.5 million of investment. There is, of course, a range of support within that.

I am sure that Jackie Baillie appreciates that the current uncertainty in the economy has impacted on demand for the available funds. Many companies will have received support from the Government and our agencies, but not under the umbrella of that particular growth scheme. Just looking at that scheme would therefore be wrong, as there are other strands of financial support out there. Because of the nature of some of this—whether we are talking about scale, co-investment or companies investing for growth—it would be true to say that a lot of investment is not currently taking place because of Brexit uncertainty. Even a critic would agree with that. It has been more difficult for the Government to co-invest where investment has been drying up because of Brexit.

We have tried to simulate demand, and the enterprise agencies have tried to signpost companies towards the Scottish growth scheme. I would like to have seen more support given through that, but we have provided financial support to companies through other Government strands over the past few years.

Jackie Baillie: I accept that, and I note that the cabinet secretary gave us the figures for the Scottish growth scheme. Could he give us the figures for the Scottish-European growth co-investment programme, which is a strand of that overall scheme?

Derek Mackay: That is specifically support of £17 million for six businesses.

Jackie Baillie: Does that includes the contribution from the business itself, or is that purely £17 million out of the SE budget?

Derek Mackay: I turn to an official for that detail.

Richard Rollison: It is the shared investment of the venture fund managers and Scottish Enterprise into the businesses. There is another £6 million on top of that £17 million that is not part of the programme and has come in through other mechanisms.

Jackie Baillie: So, the figure is lower than anticipated. I accept entirely what the cabinet secretary says about uncertainty, but the fund was to help companies deal with Brexit. I therefore wonder, on reflection, whether we think that the product is perhaps the wrong one at this particular point in time.

Derek Mackay: It is one of many. I go back to the inception of the growth scheme. In its early days, it was considered that it would involve contingent liabilities or guarantees. If members remember, it was understood that it would offer a very useful way of leveraging support into businesses. That was based on advice from companies as to what might have been helpful and from the banks on where there might have been a gap in the available funding.

The scheme was first meant to involve guarantees or contingent liabilities, which would have crystallised only if the resource was called upon. The scheme was then developed so as to have that umbrella of different funds and investments, including the co-investment fund. It has tried to adapt over time. Jackie Baillie is right: it is demand led, and it requires co-investment for some of the funds. Because of the nature of the economy and the current investment position, the figure has not been achieved.

Overall, however, the support to business has still been delivered. There was a view in the early days around contingent liabilities, with the Government using the strength of its balance sheet to support business, and we have done that.

We then turn to the question that Dean Lockhart asked me, on the writing down of investments—equity investments going into companies. I suppose that people could consider that to be what the Scottish growth scheme could have been, but that we have delivered the scheme in a different way.

We have tried to respond to where the demand is and to where the investment could be. Those funds are different tools in the box to support and stimulate the economy, but it was first envisaged that they would be contingent liabilities. We changed that into investment and co-investment funds. The figures speak for themselves, in that there has been some leverage of investment through the scheme, but not as much as we would have hoped. Still, there is plenty of support elsewhere through the different financial products that we have.

Richard Lyle: I know that you have a great grasp of your remit, cabinet secretary, and I want to ask you a question about Highlands and Islands Enterprise, although I know that the agency falls within the remit of the Cabinet Secretary for the Rural Economy, Fergus Ewing. HIE has done wonders for the Highlands since it was first set up, but a number of financial risks are set out in the agency’s annual report regarding space hub Sutherland, VAT liability, the Cairngorm funicular and the impact of the sale of the centre for health science. Are you satisfied that HIE has the expertise to manage those risks?

Derek Mackay: I appreciate Richard Lyle starting by complimenting me on my grasp of my remit, but it would be wrong for me to overreach into the remit of other cabinet secretaries. As finance secretary, I am generally satisfied that other cabinet secretaries are looking into those issues.

Judging from my awareness of Highlands and Islands Enterprise, I would expect the agency to deliver value for money, perform due diligence, and operate according to the Scottish public finance manual and other commercial advice, as it receives it, for any investment that it makes. I am satisfied that HIE would do that. As to the detail of any project, I would suggest that you have Fergus Ewing here and grill him in the way that you grill me.

Richard Lyle: We never grill you. I think—if the convener agrees—that we will write to Mr Ewing regarding my question.

The Convener: We will discuss that as a committee. I am sure that we will be very happy to write to the appropriate minister to ask the question. We would not want the cabinet secretary here to overreach.

We have a brief follow-up question from Dean Lockhart.

Dean Lockhart: You mentioned the £149 million paid out under the Scottish growth scheme. Perhaps I missed this, but I want to confirm whether that is the total, including private sector co-invested money, or whether it is just the Scottish Enterprise slice.

Derek Mackay: Can I check with the officials? I want to give an accurate figure.

Richard Rollison: That is the total investment: both the money that has gone through the fund providers and any public sector money. There is a shared approach on the total sums going in.

Dean Lockhart: What would the public sector contribution to that £149 million be?

Richard Rollison: I would need to come back to you on that.

Dean Lockhart: Do you have a rough feeling about that? Would it be half?

Richard Rollison: It is somewhere in my pack here.

Derek Mackay: Can we answer that in writing?

The Convener: If you do not have the figure to hand, that is fine.

Dean Lockhart: It would be useful to get it—thank you.

The Convener: We come to a close on this agenda item. I will suspend the meeting briefly to allow a changeover of officials, but the cabinet secretary is remaining with us.

10:56

Meeting suspended.

11:00

On resuming—

European Union Exit (No Deal)

The Convener: The third item on our agenda is evidence on leaving the European Union without a deal. We are again joined by Derek Mackay, Cabinet Secretary for Finance, Economy and Fair Work. I welcome to the meeting from the Scottish Government, Kevin Quinlan, director for international trade and investment, and Gary Gillespie, chief economist. I invite the cabinet secretary to make an opening statement.

Derek Mackay: The uncertainty around Brexit is already having a detrimental economic impact on Scotland. Instead of planning for Brexit, firms could be focusing on developing their business and working to increase productivity, which we discussed earlier today. Any form of Brexit will have a further detrimental impact on Scotland.

A no-deal Brexit will create an immediate dislocation in the economy, which has the potential to impact us in many ways, including through investment, uncertainty, logistics, trade, sterling, and regulatory, financial and fiscal channels, which will have an impact on individual businesses, sectors and communities. From analysis by the Scottish Government, alongside analyses by the Office for Budget Responsibility, the Bank of England and other independent forecasters, we know that having no deal will tip the Scottish economy into recession and reverse the recent gains in the labour market, which could see unemployment rise by up to 100,000.

Although we do not want to leave the EU, we, as a responsible Government, have to prepare for a no-deal Brexit. There are things that we can plan for, but there will also be many unknown unknowns. Therefore, we have planned a range of interventions that we can deploy in the event of a no-deal Brexit. We will need to be agile in determining which to deploy and when, based on an assessment of the situation as it unfolds.

I am clear that the funding for those interventions should have come from the UK Government. The Scottish budget has been agreed by Parliament and is fully committed. If resource is not forthcoming from the UK Government, we will be faced with the choice either to cut funding for public services, or not to deploy contingency plans in the way that we would want.

We have organised our response to Brexit in three phases: resilience, recovery and restructuring. On resilience, we are engaging with business organisations across Scotland and seeking to address their concerns as best we can.

That includes providing bespoke information on how businesses can prepare for Brexit in supporting access to finance for businesses of all sizes. We are doing that primarily through the prepare for Brexit website, which has now had more than 100,000 visits. We have completed 6,000 company assessments. As recently as last week, I met the chief executives of our enterprise and skills agencies to take stock of our Brexit response and to ensure that we are aligned in our approach.

In all of that, we have three lines of defence. We are working closely with the banks, encouraging them to make funding available and signposting businesses to go to the banks in the first place. I am convening a meeting of the banking and economy forum later today and I will continue to impress on the banks the important role that they have in stepping up to the plate to help Scottish business post-Brexit. The second line of defence is to look to the UK Government to step up and provide support to businesses that are suffering as a result of Brexit, primarily through the British Business Bank. Finally, businesses will be able to access the current Scottish Government and agency support. We plan a range of interventions and options that we can deploy in the event of a no-deal Brexit. We need to be agile in determining which options to deploy, based on an assessment of the situation as it unfolds.

In relation to recovery, a revised and updated version of our economic action plan will be launched later in the autumn, setting out the wide range of activities and interventions that we are undertaking to help to deliver sustainable, inclusive economic growth.

As we know, Brexit impacts real people and our future skills action plan will help to ensure that Scotland has a skilled and productive workforce that is resilient to future economic challenges. We will continue to increase investment in R and D and our export plan, which seeks to ensure that we are not just fighting back against the impact of Brexit, but are targeting key markets and industries that have real growth potential. We will build on that through the Scottish national investment bank.

We aim to combat the potential fall in population as a result of Brexit with campaigns to ensure that European Union citizens know that Scotland is their home and that they are welcome here, and with efforts to secure an immigration policy that suits Scotland's needs.

Finally, the third phase of our approach involves longer-term restructuring, which means looking further ahead to try to understand what the economy might look like in the future and prepare for that. Obviously, that is hard to do in the current uncertain political and economic environment that we find ourselves in, but we are ready and prepared to adjust our approach to whatever may come.

The Convener: Thank you, cabinet secretary. Colin Beattie will ask the first question.

Colin Beattie: My overwhelming impression is that, across the whole of the United Kingdom, businesses, financial institutions and professional bodies have been communicating their concerns to the UK Government in respect of a no-deal Brexit. Is there any indication that the Government is listening to those concerns and addressing them?

Derek Mackay: With regard to the high-level political principle, if the Government was listening to business, it simply would not deliver a no-deal Brexit, because that would be economically catastrophic. Businesses are saying that it would be catastrophic, that it would cause business failure, a dip in exports and soaring unemployment and that it would undo the gains that we have made in the economy—that it would be incredibly damaging. Any form of Brexit will damage the economy—Brexit has a range of impacts that I think are well understood by the committee—but, even now, the approach could be different. It could be in keeping with what Westminster has approved with regard to trying to stop a no-deal Brexit. If the Government was listening, it would not allow a no-deal Brexit.

The Scottish Government has pursued an agenda of trying to stay in the European Union. The next best thing would be to have a compromise whereby we stay in the single market and the customs union, and, of course, Scotland has particular needs within that.

With regard to the worst-case scenario of a no-deal Brexit, we have had to rely on what are essentially leaks from the UK Government to enable us to understand what its preparations look like. It appears that the UK Government is not fully listening to what business is saying about the demands and pressures that it will face as a consequence of Brexit.

Of course, preparations are under way at the Scottish and the UK level, and we are trying to engage with the UK Government on what can be done to mitigate the impact of Brexit. However, let me say here at the committee that there is no way in which the Scottish Government can fully mitigate the impact of a no-deal Brexit on Scotland's people and economy, if that is where the UK Government leaves us.

Colin Beattie: Obviously, the Bank of England is a respected institution, and the estimates that it makes with regard to an analysis of EU withdrawal without a deal indicate that UK gross domestic product could reduce by up to 10.5 per cent by

2023. There are various scenarios within that, which involve UK unemployment increasing to 7.5 per cent and inflation increasing to 6.5 per cent. Is it at all possible to mitigate that kind of scenario?

Derek Mackay: I have just tried to make the point that there is only so much that the Scottish Government can do. If there is soaring unemployment, there will clearly be a sense in which we are overwhelmed in terms of what Skills Development Scotland, colleges, universities, local authorities and other stakeholders can do in that regard.

The economic impact in terms of business failures, imports and exports and exchange rates would be catastrophic. I know the effort that my ministerial colleagues and I have made over the summer with regard to particular industrial interventions, but I can say that it is not possible to fully mitigate the impact of a no-deal Brexit. It will be incredibly harmful to our economy and, therefore, to our communities. There is a great deal of economic consensus that that will be the case. Even the Chancellor of the Exchequer struggled to quantify the negative impact on the UK's economy. There is no positive impact of a no-deal Brexit; there is only a negative impact. It will be catastrophic and there is only so much that we can do to mitigate it, but we have plans in place to prepare for it.

I do not know whether you want further analysis of information on those economic forecasts—I have the Government's chief economist and economic adviser with me.

Colin Beattie: It would be interesting to hear from him.

Gary Gillespie (Scottish Government): I will pick up on the Bank of England's most recent forecast. It revised its forecast for no deal in light of the increased mitigation measures being put in place by the UK Government. However, as has just been said, it is still forecasting a negative impact on GDP, with the economy contracting by up to 5.5 per cent, and rising unemployment.

More interesting is the OBR's July forecast, which is based on its fiscal risk report. It looked at a more benign no-deal scenario in which there would be mini deals for a number of sectors. Its projection suggested that even in that scenario the UK economy would contract through 2020 by about 1.4 per cent and that public finances would be hit by up to £20 billion.

The key point about the different modelling and forecasts is that the initial work that we published for the Scottish Government looked at the impact of Brexit on the economy up to 2030. Essentially, that is based on a transition, with sectors adjusting to the situation. Our work shows that, by 2030, the economy will be a percentage lower than it would have been under the status quo.

With no deal, there will be a disorderly impact and the immediate change front-loads the risks. There will be an immediate dislocation of the economy through supply side constraints, whether that be transport, regulatory or in relation to the preparation of businesses, and through the demand side, with a collapse in confidence. All the forecasters are really worried about that immediate impact and the known unknowns of how that will play out.

The Convener: I want to move on the discussion from the forecasts, which vary from time to time depending on who is providing them, to the specifics of what the Scottish Government is doing and has done to assist Scottish businesses with the consequences of a no-deal Brexit, in which we would be under World Trade Organization rules. To some, those rules might be advantageous; to others, they might be disadvantageous. What has the Government done to help companies prepare for that situation?

Derek Mackay: We have been engaging with business representative organisations and convening the banking and economy forum, because most companies will engage with their bank when it comes to any pressures that we face. We have been building up intelligence and responding to requests for support through the prepareforbrexit.scot website, where we can do the diagnostics and advise companies on anything that they might be able to do to prepare for Brexit. In my opening remarks, I gave figures relating to the website.

It is not just a website. Although everything is largely online, there is also a call centre, which is based in Clydebank, and a whole team brings together the different enterprise agencies to try to come up with a bespoke package of support for individual companies.

The call centre works to bring together different parts of Government to give support to individual companies and to advise that a diagnostic tool and financial support are available for businesses to prepare for Brexit. The enterprise agencies have been engaging businesses individually, too.

However, because the political outcome is unknown, it is fair to say that companies have been finding it difficult to prepare fully. Larger companies, particularly those that provide financial services, have reorganised their affairs. Although they might not like the situation, they might feel better prepared than many small and medium-sized businesses.

There is an issue about SMEs, because many of them do not have a plan for Brexit. Therefore, we have promoted the prepare for Brexit campaign and provided tools, advice, support and expertise; specific grants are available, too.

If we are in no-deal Brexit territory, we will have three phases: recovery, resilience and, ultimately, the restructuring of the economy, because some sectors will experience less growth or more of an impact than others as a consequence of Brexit.

11:15

In the recovery phase, we would have an immediate triage arrangement to provide support. We would signpost and refer people to the banks, but we will also have Government financial products that can assist businesses. With regard to unemployment, Skills Development Scotland and our colleges would be involved in retraining and upskilling. The Scottish Further and Higher Education Funding Council would also help to ensure that resources are reorganised to provide support packages for businesses to enable them to adapt in respect of workforce and labour supply issues. We are concerned about the skills gap. The PACE—partnership action for continuing employment—team would be involved where there are redundancies, intervening to provide support in the usual fashion.

There is a range of options. The scale at which each option is deployed will be determined by the available resources, the UK Government's own interventions and where the demand is at the time. As Gary Gillespie touched on, sectors will be affected differently so we have to tailor our approach based on the intelligence that we have at that point in time. We have an economic dashboard that helps us to understand what is going on in the economy and where we can best target our efforts.

With regard to the rural economy, agriculture will face its own specific challenges. I am sure that Fergus Ewing could tell you more about the rural economy and the issues in relation to support around farming. One headline on farming is that we have advanced the loan scheme to provide a fiscal injection by way of loan payments to the farming community.

That is a taste of some of the preparations that we have been making. We have also been engaging with the UK Government around reserved areas that will have an impact on devolved functions, not least transport and logistics.

The Convener: Your officials may be able to help with this question. Have analyses been done of which companies will be affected? As you said, some will be affected more than others, depending on economic conditions. Are there analyses that could be shared with the committee?

Derek Mackay: Absolutely. Some have already been published, but I am happy to provide more information.

Gary Gillespie: The Scottish Government published a no-deal Brexit analysis in February, and I gave evidence to the Culture, Tourism, Europe and External Affairs Committee in March on the impacts. To give you an example, we took on board Bank of England work on the sectors that are most likely to be impacted by a no-deal Brexit. Those sectors are either dependent on EU labour or affected by border issues, regulation or transport and logistics. The key sectors in Scotland that face potential impacts are agriculture, forestry, fishing, chemicals, food and drink and construction. We can provide that information to the committee.

I want to make a point about the prepare for Brexit website. When I appeared before the committee in March, the site had been live for about a month, and we were seeing a spike in activity at that time; there were something like 32,000 visits to the site, and just over 2,000 companies had used the online assessment tool.

As of last week, there had been more than 100,000—approximately 106,000—site visits, and way over 6,000 businesses had completed the assessment. The need to think about the impact of a no-deal Brexit is really starting to penetrate among businesses based in Scotland, whether they are in the front-line trading sectors or supplying the economy within Scotland.

Willie Coffey: Cabinet secretary, do you think that the Prime Minister is seriously trying to get a deal in order to avoid a no-deal exit? The latest news this morning—I do not know whether you have had a chance to look at it—is the suggestion that there could be some kind of customs buffer zone in the north and south of Ireland to overcome the backstop. That plan has immediately been rejected by the Irish Government. What is your view? Do you think that there is a serious attempt to try to get a deal to avoid a no-deal Brexit?

Derek Mackay: I do not believe that there is a serious effort by the UK Government, led by Boris Johnson, to get a deal. I fear that Boris Johnson is about EU exit at all costs, and the collateral damage will affect the economy and communities across the whole of the UK.

As I understand the position this morning, the UK Government's current proposition for addressing the issue in Northern Ireland—which is set out in what I believe it calls non-papers—has already been rejected out of hand. We have seen no evidence that it is genuinely trying to get a deal. Any form of Brexit would be damaging to the UK and Scottish economies, but a no-deal scenario would be particularly catastrophic, which of course is of great concern to us.

Richard Lyle: The UK Government's own analysis shows how devastating a no-deal scenario would be for our economy, yet it still does not think that we should rule it out. Disruption to cross-Channel trade could lead to delays in UK food supply, 30 per cent of which comes from the EU. The UK is an island and so has to import certain foods and products. What questions should be asked about the potential for reduced availability of fresh food and a rise in prices, which could hit vulnerable groups; the application of petrol import tariffs, which could inadvertently lead to thousands of job losses and disruption to fuel supplies; and, most important, the fact that medical supplies might be vulnerable to severe, extended delays? Three quarters of the medicine that is used in the UK enters the country through the main Channel crossings. Many of my constituents have been prescribed drugs that are usually imported, so I am especially concerned about that issue. On food, yesterday I was talking to a chap who imports cheese and butter from Ireland, which currently costs him £1,200 per tonne. If Brexit goes ahead, the cost, including tariffs, will rise to £2,600 per tonne, which is more than double.

What is your view on that? Do we have any relationship with the UK Government when it comes to discussions on preparing for such situations and ensuring that there will be no supply chain disruptions? My concern is that, after 31 October, people will walk into shops only to find that the shelves are empty.

Derek Mackay: For the reasons that it has already given, the Scottish Government is concerned about the impact that a no-deal Brexit would have on our economy. However, the impacts would go much wider. Even in reserved areas such as borders and tariffs, issues will manifest themselves in devolved matters such as transport and medicines, as in the example that Richard Lyle has given. Such a shock to the economy is, of course, a concern, but there would also be issues in the medium and longer term.

I have to say that our relationship with the UK Government sometimes depends on which Whitehall department we are dealing with. Overall, I do not think that there has been proper engagement with the devolved Administrations. It has not been as good as it should have been—and especially since the new Prime Minister has come in. We are being involved a bit more now in some of the UK's preparation infrastructure, and there has been sharing of information, but I reiterate that the position depends on which department we are dealing with.

Richard Lyle has legitimately expressed concern about transport and customs in that regard. If the UK Government's transport, customs and ports strategy is not right, that will have an impact on supplies across the UK and to Scotland. That is why we are working intensively to try to prepare for that scenario, but we will be dependent on the UK Government's approach.

For example, there has been stockpiling of medicines, but we must also have in place the necessary routeing arrangements to ensure that there will be adequate provision of category 1 supplies. At the moment, I feel as though we are all relying on the UK Government having plans for plans to deliver those. Of course, we have been posing the question whether it can guarantee that 100 per cent of supplies will be in place. It will be for the UK Government to answer how sure it is about that; so far, it has simply advised us that it plans to have plans. I am concerned about the timescales for having those in place. To take the example of medicines again, it must see not only that such plans are in place but that the pharmaceutical companies, distributors and suppliers know about them in time to ensure that there will be proper distribution across the country. The prospects of a cliff-edge scenario and a no-deal Brexit being delivered in a fashion that will cause so much disruption are, of course, of immense concern to us.

On the economy, perhaps Kevin Quinlan will say a bit more about how tariffs might affect Scottish business and trade, as there is a particular question around the sectors that will be impacted—especially agriculture—on which the committee might wish to be sighted.

Kevin Quinlan (Scottish Government): There are areas that are within our control and areas that are not, and the setting of tariffs is not within our control. We have engaged with the UK Government in a concerted manner around that. I guess that there are a couple of issues. The first is the shock value of tariffs being introduced overnight and therefore having an immediate effect without private sector suppliers being able to adjust. Secondly, some of the tariffs that we are looking at are quite complicated. There are pages of schedules in the notes. If we look up the west coast fishing industries, we see that the figures are 12 per cent for langoustines, 18 per cent for prawns, 2 per cent for fresh salmon and 13 per cent for smoked salmon, so the regime is complicated.

There are some areas that we are able to do something about, and one of those is export health certificates in relation to the export of seafood products from the west coast. We have come up with a Scottish solution to that in order to ensure that some of the regulatory barriers do not impede things.

Overall, I think that the situation will have a very significant impact. The most important point is that, in the absence of a trade deal, Europe will not change its tariffs, so we will face the same tariff levels that we have now. The tariffs that the UK Government announced in April will mean that we have drastic liberalisation. I think that between 87 and 95 per cent of our imports will be subject to a completely tariff-free situation. The notable exceptions are sheep, where the tariff regime will be between 40 and 60 per cent—there will still be very significant competition there—and beef, where it will be 100 per cent.

Richard Lyle: Overnight, people in Scotland who export to Europe will pay between 2 and 12 per cent more.

Kevin Quinlan: Yes.

Richard Lyle: In addition, we as the public will pay more for stuff that comes in from Europe and elsewhere. I am concerned about that, but I will move on to another concern that I have.

There has been a long debate about EU nationals who live in the UK. They have been told that they can remain, that they cannot remain, that they need to pay and that they do not need to pay. I see people drifting away and going back to their countries, but I want them to stay. I welcome people coming to Scotland and living here.

My mother-in-law was Dutch and my father-in-law was Lithuanian. As I said in the chamber last week, if they had not come here, I would not have met my wife and I would not have had my kids or grandkids. It angers me that we have a situation where, basically, we are telling people to go home. I am sorry, but their home is here, and I want them to stay. What action are we taking against the UK Government basically driving people away from their home, which is Scotland?

Derek Mackay: I concur with what Richard Lyle has said. We have tried to create a political environment that is in sharp contrast with that of the UK, which has tried to create a hostile environment in relation to immigrants and immigration. In Scotland, we recognise the contribution that immigration has made to our communities, our diversity and our economy, and that is why we are encouraging people to stay. Scotland is their home, and if we are privileged enough to have people who have chosen to come and live here and contribute, we want them to stay.

We have been doing that at a political level, and we have also been running campaigns about staying in Scotland. People are welcome here. We have tried to show our pro-internationalist and pro-European credentials, and we have been working with the business community to project the message that we want people to stay. The UK has particular bureaucratic and administrative arrangements for settled status that require people to register, but we have been running campaigns to encourage people to stay in Scotland. We also welcome people to Scotland from the rest of the UK, of course. We will continue to run those campaigns to make the point that people are welcome to stay.

11:30

I have also tried to support businesses in retaining their workforce, because that is a key point in relation to people who might choose to leave, as Richard Lyle mentioned. It might be the exchange rate or the more hostile environment that the UK Government has created, but I think that most people get that there is a point of difference, in that the attitude in Scotland is that we want immigrants to stay. Our future population growth is projected to come only from inward migration, so for economic and social reasons we want to encourage people to stay. That is why we have been running those campaigns and supporting businesses to make staying here as easy as possible.

There has, of late, been one victory in terms of UK immigration policy, which was the decision to allow people to stay on post-study work visas. That speaks to the point that our economic needs require inward migration. We want to see a much more welcoming UK immigration policy, and if the UK Government wants to change its policy, it should be sensitive to Scotland's needs and give us the tools to create the right migration policy for Scotland. There is no doubt that with a shrinking working-age population we need more people to keep delivering our services and growing our economy in a sustainable way. The Scottish Government has done everything that it can to encourage people to stay, and that will continue.

The Convener: I remind members that we are tight for time. We appreciate the cabinet secretary giving us his time, but we are running a bit longer than he will have anticipated.

Dean Lockhart: I want to follow up on what the Scottish Government is doing for business. How much additional funding, in pounds, has been allocated to the enterprise agencies to prepare for Brexit?

Derek Mackay: We expect the enterprise agencies—and many other parts of the public sector—to recalibrate and ensure that energies are directed towards the Brexit challenge. To give some examples, promoting Scotland internationally received £1.4 million, the prepare for Brexit campaign received £1.1 million and the advice service and community-based support for EU citizens received £0.5 million. I included the prepare for Brexit campaign because of the specific question. Scottish Enterprise received £1.1 million to support that campaign.

Dean Lockhart: So the ballpark figure, without being too precise, is that £2.5 million to £3 million pounds has been spent by the Scottish Government to—

Derek Mackay: Let me check all the figures, because you are asking me for budget lines now. The headline commitment through approved spend for the prepare for Brexit campaign is £1.1 million and, as I said, for promoting Scotland internationally it is £1.4 million.

Dean Lockhart: So, out of a Barnett consequential of roughly £95 million from the UK Government for Brexit preparation, roughly £2 million has been spent by the Scottish Government to prepare Scottish business.

Derek Mackay: No. You asked me a different question. You asked how much was specifically given to Scottish Enterprise. The totality of support given to the business community as a consequence of Brexit will be greater than that. In fairness, you cannot expect me to have that figure to hand.

Dean Lockhart: Do you have a rough idea of what it is?

Derek Mackay: I would rather check the detail and come back to the committee than give you a figure off the top of my head. You asked what Barnett consequentials had been given to the enterprise agencies to prepare for Brexit. The amount of support going to the business community as a consequence of Brexit will be much higher and I am happy to come back to the committee on that.

Dean Lockhart: Thank you.

Gordon MacDonald: The EU market of 500 million people is very important to the Scottish economy, but the EU also has trade agreements with more than 70 countries. Has the UK Government had any discussions with you about what will happen at the end of the transition period in December 2020 when those agreements come to an end as far as the UK is concerned?

Derek Mackay: Again, I can ask Kevin Quinlan to cover that, because he works between ministers. Of course, Michael Russell is leading on UK Government negotiations.

I was to meet the UK Government business secretary next Monday—I imagine to discuss preparations for Brexit. Believe it or not, I was quite looking forward to that, but I understand that that meeting has been cancelled, which is unfortunate, because we should be engaging with the UK Government as much as we can in trying to prepare for Brexit.

Kevin Quinlan might want to say more about engagement with trade officials.

Kevin Quinlan: Such engagement is super important in the context of future trade access, and we have been engaging. The flow of information on the progress that was being made was pretty good in spring. Since then, there has been a leak in Whitehall—not in the Scottish Government—and the flow of information has dwindled to a trickle, although we still get an informal heads-up.

On what happens after the transition period, I think that, by and large, the Department for International Trade is working on the assumption that trade agreements will roll over, if and when they are signed, and any renegotiation would happen more slowly. There is a practical problem, in that the department faces the challenge of bandwidth to do any substantial renegotiation.

Gordon MacDonald: Thank you.

Jamie Halcro Johnston: Cabinet secretary, you spoke about the Government's position on a no-deal Brexit. If a deal is struck between the EU and the UK—and both parties agree to it—will the Scottish Government support it?

Derek Mackay: To be clear, you are asking me whether I will support a deal in relation to which we have seen no evidence, no content, no understanding and no assessment. Would it be fair to say that—

Jamie Halcro Johnston: I am asking whether, if a deal is struck that is agreeable to both the EU and the UK, the Scottish Government's position will be to support that deal, given your comments on a no-deal Brexit.

Derek Mackay: We would not support a deal that damages Scotland. If there is a deal—not that there is any evidence that there is going to be one—and if it is Theresa May's deal or a close variant of it, we know that it will damage Scotland; we did not support Theresa May's deal.

A no-deal Brexit would be catastrophic. If a deal emerges, of course the Scottish Government will look at it. Our ambition is clear: ultimately, we want Scotland to stay in the European Union and inside the customs union and the single market. If some new political deal is reached, of course we will look at it, but if it would damage Scotland, why should the Scottish Government support it?

The Convener: Are you saying that the withdrawal agreement that the EU was willing to agree to was damaging to Scotland?

Derek Mackay: That is right. That was Theresa May's deal.

The Convener: Well, I think that it was the EU's agreed offer with her.

Derek Mackay: Okay. The EU deal with Theresa May was a deal that would damage Scotland.

If a new deal emerges between Boris Johnson and the European Union—but let us wait and see; I hae ma doots, convener—and the deal would damage Scotland, why should the Scottish Government support it, when to do so would be contrary to not just what the Scottish Government thinks but what the people of Scotland thought when they voted in the referendum to stay in the European Union?

The Convener: We will move on from your doots to Jackie Baillie.

Jackie Baillie: I share the cabinet secretary's sentiments in his response to you, convener.

Mike Russell, the Cabinet Secretary for Government Business and Constitutional Relations, said in Parliament that a no-deal Brexit would

"generate a significant economic shock".—[*Official Report*, 6 February 2019; c 3.]

Given its new fiscal powers to deal with economic shocks, will the Scottish Government seek to borrow additional money to address the crisis that we think that Brexit will present?

Derek Mackay: It is a fair question. I will attend the Finance and Constitution Committee later this week, but let me share with this committee that I have already engaged with Treasury to say that the current parameters around our resource borrowing powers are inadequate, partly because of the information that is coming to light.

If we consider, for example, the income tax reconciliation or what we might want to do with the Scottish national investment bank's borrowing, and we add in the volatility around Brexit, the current parameters are inadequate. That is the straight-bat answer to the question. I do not think that the borrowing powers that we have around resource and capital are adequate, especially given the volatility and economic difficulty that we face on the back of a no-deal Brexit.

On resource borrowing, the Scottish Government has modest resource reserves of around £135 million. Borrowing limits are in place. However, as I said earlier, if the UK does not fund the execution of a no-deal Brexit plan, we will have to either re-prioritise from within or curtail our contingency plans to support our plans. That is a concern, and it is why the UK Government should fully fund the consequences of a no-deal Brexit.

On borrowing and the financial limits that we work within, I present information to the Finance and Constitution Committee at budget time. The UK Government is looking at the prospect of a budget. We thought that there might be an emergency budget, but there was not one. The UK budget is yet to be set. I will set out our funding plans at the Scottish budget, which will give our response to the situation. As I said, though, I already believe that the current parameters that we have around resource and capital borrowing and drawdown from the reserve are far too constricted for the realities that we now face in the fiscal landscape.

Jackie Baillie: That does not quite answer my question, so I will pry a bit more. You have an additional fiscal power that was negotiated by the previous finance secretary with the UK Treasury that means that, in the case of economic shocks, you can borrow more money, which is a perfectly legitimate thing to do. In my view, those triggers will certainly be met in the context of a no-deal Brexit. I want to push you on whether you are likely to use that revenue stream that is open to you.

Derek Mackay: I tried to give a comprehensive answer, because it was a good question. I will certainly address it at the Finance and Constitution Committee and in the subsequent budget.

Let us separate out the two issues. First, before we come to the economic-shock resource borrowing limits, the question is whether I would be able to borrow more to fund no-deal preparations. I tried to say in my previous answer that I would be very limited in my ability to do that given the Scottish Government's budget and its approval by the Scottish Parliament. Unless extra resource came to Scotland, we would not be able to fully fund the no-deal plan. I believe that I have said that the volatility that we face because of a number of matters already suggests that the UK Government should be more flexible in relation to our borrowing powers. I tried to give an honest answer on that and analyse the situation. It is a fair question to ask how we could fund the no-deal Brexit preparation and indeed the no-deal impact if the UK Government is not going to do that, which would curtail what we could do in mitigation.

Separate to that, I note that we have not yet met the criteria for that component part of resource borrowing as a consequence of the economy. The Scottish Fiscal Commission makes a judgment on that as well. If there was divergence from the rest of the UK, it would call into question the ability to borrow against that economic divergence point. The fear might be that the UK would be in recession as well, so its GDP might be impacted as well as Scotland's, whereas the fiscal framework's parameters are about the relative position between the UK and Scotland. I think that that gives Treasury further cause to look again at the parameters around resource and capital borrowing that will allow us to deal with an economic shock.

The arrangements were set out in such a way that they refer to a Scotland-only shock, whereas I think that the point that Jackie Baillie is driving at is that an economic shock is an economic shock, and the question is how we can have more tools and levers to use in that scenario. It would not be just Scotland that was in economic shock, so to speak; it would be the UK as well. That is why I have tried to open up the debate with Treasury. There is a new Chief Secretary to the Treasury. I know that he is catching up with his brief at present, but I tried to engage with Treasury at the first meeting that I had—at the finance ministers quadrilateral—to try to take the issues forward.

The first call on the UK Government was to fully resource Brexit preparations and then the impact of Brexit to try to ensure that there would be no net detriment to Scotland's finances in terms of both what Government can do and its responsibility to intervene to protect the economy. It is a fair question and I hope that the UK Government will consider the requests.

11:45

Jackie Baillie: Can I pursue the issue of the money that has already been allocated for Brexit? There was £37 million in 2018-19 and £55 million in 2019-20, and the Chancellor of the Exchequer announced another £40 million on 31 July. Will you provide the committee with the full breakdown for 2019-20 by portfolio? You gave me a breakdown in answer to a question about 2018-19, but you said that you could not provide a breakdown for 2019-20. That strikes me as rather strange. I am happy for you to write to the committee with that breakdown. In that written response, will you separate out, if possible, the money that has been spent on no-deal preparations as opposed to general Brexit preparations?

Finally, I am supportive of your bid for a further £52 million from the contingency fund, but will you tell us how that is broken down?

Derek Mackay: I will try to be as helpful as possible. First, it is true that Brexit consequentials have been allocated to support preparedness. However, if there is a no-deal Brexit, the consequentials so far will not come close to resourcing the response to that. I can itemise the resources for those areas, but not right now. I do not think that we have time for that anyway, given what the convener said to me earlier. However, preparedness resources have been allocated for, for example, police numbers, Brexit support, businesses and fair share funding, which will help to tackle food insecurity. There are a range of areas in relation to the current Brexit consequentials, and I can return to them and show how they have been resourced. Of the £98.7 million European Union exit consequentials that were received between 2017-18 and 2019-20, we have already spent or committed £92 million.

On the request for the £52 million from the UK Government's £1 billion operational contingency fund, which is to help us to prepare for a no-deal outcome, there were strict and tight criteria for that and we worked at pace to produce a bid. The request includes funding to tackle the disproportionate effect of a no-deal Brexit on rural communities, including to ensure that medical support reaches those areas; funding for increased demand for Marine Scotland compliance activities around Scotland's coastline; funding for additional communications to EU citizens who live in Scotland; funding for increased demands on Police Scotland; and funding for poverty mitigation measures to support financially vulnerable households. That is the nature of the £52 million bid, which is in with Treasury at present.

The Convener: Thank you very much for coming in, cabinet secretary. That concludes our evidence session. I will suspend the meeting to allow a changeover of witnesses.

11:48

Meeting suspended.

11:52

On resuming—

Consumer Scotland Bill: Stage 1

The Convener: Agenda item 4 is on the Consumer Scotland Bill. We are joined by three witnesses: Norman Kerr, director of Energy Action Scotland; Thomas Docherty, head of public affairs, nations and regions, for Which?; and Jonathan Lenton, an ombudsman at the Ombudsman Service. I thank you all for coming in today.

Jackie Baillie: I declare an interest as the honorary vice-president of Energy Action Scotland, but that does not mean that I agree with Norman Kerr on everything.

I have a simple question to kick off with. Do we need consumer Scotland? I am curious to know how it could provide any additionality over the work of the existing consumer bodies.

Norman Kerr (Energy Action Scotland): The simple answer is no. It would not add much to the landscape. Others have said that it would tighten the landscape, but we are not convinced about that. The bill provides additional powers that could have been easily given to Citizens Advice Scotland. When Consumer Futures was dissolved and Citizens Advice was to take on its responsibilities around Great Britain, Energy Action Scotland argued that Citizens Advice should be accountable to Parliament, so that Parliament would have a duty to approve its work plan and receive reports on consumer detriment.

The bill is simply trying to replicate that, and our worry is that that would muddy the consumer landscape. Consumers already have a fairly wide choice of people with whom to discuss problems and, unless the new body also took on the role of consumer education, which we can all agree is lacking, it would not add anything to the landscape.

Thomas Docherty (Which?): We take the reverse position. In 2015, when the devolution of the powers was first proposed following the Smith commission, the Scottish Government originally proposed the creation of a single body. However, CAS, Which? and other members of the independent working group said that that was not the way to do it. That might not have been everybody's position, but it was a starting point, and I am happy to explain why that was. Almost from the start, it was felt that having two distinct bodies with two clear remits was the way forward.

We are huge admirers of what Citizens Advice Scotland does on tackling fuel poverty and on financial wellbeing, welfare, benefits and advice for citizens on immigration and employment rights. If the bill were to be passed, CAS would continue to do those things, and consumer Scotland would focus purely on the consumer landscape.

It is worth remembering that Scottish consumers spend more than £8 billion per month. In order to spend that money, they must have confidence that the markets in which they transact work for them. In too many markets—some are reserved and some are devolved—that is not the case.

We—and almost everybody who made a written submission—think that there are clear gaps in the environment. Rightly, the Scottish Government has not squeezed in a new body to fill the gaps without touching the sides of any other body that is working in the area. Instead, it has done the right thing by looking across the board to see which responsibilities should move from other organisations to consumer Scotland. It has created a system that is bold, brave and logical, so that when organisations such as ours look at the two bodies, it is clear which of them will do what, as well as what organisations such as Trading Standards Scotland and Advice Direct Scotland will do.

Jonathan Lenton (Ombudsman Services): I will not pretend to be an expert on the consumer landscape in Scotland. However, looking at the complaints that we deal with, I can see that there is a complaint class that is unique to Scotland—we receive a set of complaints from Scottish consumers that is different from the complaints that we receive from consumers in the rest of the UK. For example, under our communication scheme, there are complaints on the availability of broadband and mobile signals and on broadband speed—those really stand out in the data on Scottish consumers, particularly in relation to consumers in rural areas. We can see the argument for setting up a consumer advocate who focuses on such issues for Scottish consumers.

We are doing some exciting work at the moment, including with one of the working groups that was set up to look at the data strategy for consumer Scotland. The group is looking to bring together data from numerous organisations, including ours, the Financial Ombudsman Service, Advice Direct Scotland and commercial organisations such as Trustpilot and Resolver, to provide a much better picture of the consumer journey and where detriment occurs. We are looking at standardising data sets across those organisations and bringing them together to understand consumers' experience. That is innovative—we have not seen other organisations doing that kind of work—and could be the model for cross-organisational data sharing in the future. We can see some positives.

Jackie Baillie: Thomas Docherty mentioned that the bill is about not just filling gaps but providing something more strategically coherent.

On that basis, do you see any potential problems with the existence of consumer Scotland reducing the public funding that is available to other consumer organisations? If it is going to do part of the job that others currently do, will the others lose money?

12:00

Thomas Docherty: When you say "other consumer organisations"—

Jackie Baillie: I am talking about organisations such as Citizens Advice Scotland.

Thomas Docherty: Right. Citizens Advice Scotland will not lose any money for its citizens advice bureaux network or for the work that it does on citizens advice issues. That money will not be touched.

It would be an interesting argument if we were to say, "We're going to have a new body, Consumer Scotland, but we're also going to fund a second body that will spend taxpayers' money doing the very things that the first body is doing." That does not make sense. In its submission to the Finance and Constitution Committee, Citizens Advice Scotland has put the figure at about £1.52 million. That money will move from CAS to consumer Scotland, because that is the money that CAS is given by the Scottish Government to look at consumer issues.

Jackie Baillie: In effect, what you are describing is displacement rather than additionality.

Thomas Docherty: No. This is off the top of my head but, according to the financial memorandum, the total budget for consumer Scotland will be about £1.9 million. I am conscious that the minister is to appear before the committee next month, so I am sure that members will challenge him on this, but we have sought clear assurances, which we have been given, that there will a real-terms increase in funding for consumer Scotland. It will not just be a case of taking the £1.52 million that goes to CAS; it will be a case of taking that £1.52 million and putting in additional funding to deliver a first-class consumer research and advocacy body.

Norman Kerr: I am glad to hear that no funding will be displaced, but I do not see how that commitment can be made at the moment. I know that colleagues at CAS are deeply concerned that although there might be no change for a short period of time—perhaps the first year—after that, that money could be ripped away from them.

Jackie Baillie: I have a question about brand, after which I will stop, because I am conscious of time. With its network of citizens advice bureaux, Citizens Advice Scotland is a recognised and trusted brand. That is certainly the case in my local community, and I suspect that it is the case in everyone else's. Consumer Scotland will be a brand-new Government agency. Would it not play better with where consumers are at the moment to give the Citizens Advice Scotland network the relevant powers?

Thomas Docherty: No. Forgive me, but I think that you are talking about two different brands. A much better question to ask would be one about Citizens Advice Scotland and Advice Direct Scotland—

Jackie Baillie: Sorry—I ask the questions and you give the answers; don't tell me what a better question would be.

Thomas Docherty: Well, bluntly, the comparison that you made is not the right one to make, because consumer Scotland will not deliver advocacy services. Advice Direct Scotland is already delivering advice services through telephony, online and via social media—it has been doing that since 1 April. Consumer Scotland will not be a brand like that; frankly, if it were to try to be such a brand, the committee would have some questions to ask about the spending of public money. Consumer Scotland's job will be to do research to identify areas of consumer detriment, to investigate what is causing those problems, to propose solutions and to advocate to regulators, businesses and the Scottish and UK Governments how those problems should be fixed. The delivery of advice services is for Advice Direct Scotland and citizens advice bureaux.

Jackie Baillie: Does Mr Lenton or Mr Kerr have anything to add?

Norman Kerr: I take what Thomas Docherty says about research, but CAS already does research and should already try to influence the UK Parliament through Citizens Advice Great Britain. As I understand it, much of what we are talking about as regards telephony, broadband speeds and energy suppliers will continue to fall within the remit of Westminster's retained powers, so the new body will have no teeth. All that it will be able to do will be to ask ministers to make recommendations to the UK Parliament. I do not believe that the new body will deliver what is being suggested.

Richard Lyle: Is the duty to collaborate in the bill sufficient to ensure that consumer Scotland does not duplicate the work of other bodies, such as council trading standards officers and citizens advice bureaux?

Norman Kerr: Collaboration is needed, and it is always good. However, if collaboration relies solely on the good will of other agencies—for example, South Seeds in Glasgow and Greener Kirkcaldy in Fife, which Energy Action Scotland mentioned in its submission and which very much have boots on the ground in their areas—it is very hit and miss, because such agencies have had funding pulled from them. I am not talking about the £1 million or so that is being taken away from the citizens advice service; I am talking about small, local organisations. If collaboration is based on good will for a Government agency that holds all the funding, we will be asking smaller organisations, which need to fund premises and volunteers, to collaborate without getting any recompense.

Richard Lyle: Who funds my local citizens advice bureau?

Norman Kerr: The local authority funds that.

Richard Lyle: Exactly. The council funds it, not the Government. If any money is getting ripped away, it is local government that is ripping it away, through localism—but that was not my question.

The Convener: Was that a statement, Richard?

Richard Lyle: Well it is true. It is the council—you know that, Norrie. The situation is that councils, through localism, allocate money to whoever they wish.

I want to get back to the consumer. If I buy a wonky television, I might go to citizens advice, but it might not be able to help me—we find that some companies do not react. If the company does not react to citizens advice, I might complain to Ombudsman Services about it, if I can. The company might not listen to the ombudsman. Sometimes people do not listen to you; I have come across that. If I then go to consumer Scotland, the company might go, "Oh, wait a minute, that's consumer Scotland. They're tied up with the Scottish Government, so we'd better sit up." Do you agree that going to someone different—even a member of the Scottish Parliament—can get a reaction? Do you agree that, depending on who you go to, you might get a reaction?

Norman Kerr: As Thomas Docherty said, consumer Scotland will not be doing front-line advocacy. It will be doing in-depth research and looking at consumer detriment; it will not intervene in individual cases. That is my take on it. Therefore—

Richard Lyle: That might not be my take on it.

Norman Kerr: Then the bill needs to be explicit on that, and it needs to show the link with the existing consumer landscape.

The organisations that I mentioned—Greener Kirkcaldy and South Seeds—receive funding from the Scottish Government, not local authorities. You talked about people ripping funding away: it is not local authorities who are ripping funding away; local authorities are already under strain. There used to be eight citizens advice bureaux in Glasgow; there are now five, because the local authority has taken the funding away.

Richard Lyle: Yes. The local authority took the funding away.

Norman Kerr: I know that colleagues will disagree.

Thomas Docherty: I accept that the Scottish Government—and the minister, when he comes to the committee next month—will have to do some explaining to people. However, let me say again that consumer Scotland will not take money away from front-line organisations, because it will not be doing their job—that is specifically not what it will be doing.

I think that the organisation's total head count will be somewhere between 16 and 20, according to the financial memorandum. Any suggestion that it could deliver a face-to-face advocacy service is as ludicrous as Citizens Advice Scotland trying to set up a telephony advice scheme to rival Advice Direct Scotland. That is just not the purpose.

Let me be very clear: people who go to citizens advice bureaux are not going there for advice on standalone consumer issues. A brief example would be what happened with Thomas Cook last week: Which? and Advice Direct Scotland had a huge number of hits on our websites and social media from people with queries about their consumer rights—they would have been going to Ombudsman Services as well. Those customers will not be walking into citizens advice bureaux in large numbers to have those conversations, because that is not what people do. However, the staff who have lost their jobs might well go to citizens advice bureaux to get advice about where they stand financially. That is the brilliant role that Citizens Advice Scotland plays and will continue to play in the future. There is a very clear divide.

Richard Lyle: The main things that Citizens Advice deal with are rents, council tax—

Thomas Docherty: Benefits.

Richard Lyle: In my experience, you name it and they will deal with it.

The Convener: Perhaps Jonathan Lenton might want to comment before we move on to questions from Colin Beattie.

Jonathan Lenton: I would just add that in Ombudsman Services we talk about strategic redress—as well as helping the individual, we think about how we can work with other organisations to improve the consumer experience. There are four pillars of consumer protection: advice, advocacy, enforcement and redress. How the organisations work together can determine how the consumer experience can be improved. Has that worked brilliantly well in the past? I would say that it probably has not. We are improving as a group of organisations. For example, in energy, we have a tripartite arrangement with Citizens Advice UK and the Office of Gas and Electricity Markets. We get together every month and look at our data and we identify issues that are causing detriment to consumers. Then we put a plan together on what Ombudsman Services, as the alternative dispute resolution provider, Citizens Advice, as the advice provider, and Ofgem, as the regulator, are going to do. We think that the intention behind consumer Scotland suggests that such an organisation could really add to that co-ordinated approach and conversation.

Colin Beattie: I have a very simple question. Does the bill give consumer Scotland the necessary powers to carry out its role?

Thomas Docherty: Yes.

Colin Beattie: Why?

Thomas Docherty: Because of what it is intended to do. Consumer Scotland is intended to be a research body and an investigatory body—it is important to say that I do not mean that it will investigate an individual transaction or company, but rather that it will look at investigating markets. It will be a body that develops policy and advocates on behalf of consumers. You could add extra powers, Mr Beattie, if you wished it to do additional things. There is a question about super-complaints, for example. However, in relation to the four tasks that it has been set—and the things that it will not try to do—it has the right balance of powers.

Jonathan Lenton: I point to the good work that Citizens Advice did a few years ago highlighting the loyalty penalty. Citizens Advice found that customers who stay with companies for a period tend to pay more than new customers and that vulnerable customers are more likely to stay with their service provider, which means that that group is significantly impacted. That is the kind of work that we expect consumer Scotland to do for Scottish consumers. The work that Citizens Advice did has had big ramifications in some of the sectors that we are involved in—we can see the impacts on the energy and communications sectors, with policy makers looking at the research and doing something about it.

Colin Beattie: I will repeat the question. Does the bill give consumer Scotland the necessary powers to carry out its role?

Jonathan Lenton: Again, I note that this is probably not my area of expertise. One thing that we like in the bill is the fact that it places an expectation on public bodies that they will take into account the impact on consumers of any future changes to the law. We think that that is pretty good. I do not know what my fellow panel members think, however.

12:15

Thomas Docherty: Scotland will be the first part of the UK to do that. We have been huge champions of it. On occasion, we had some difficult conversations on the subject with the minister, but he has been really supportive, and we think that it is a really important step forward.

Colin Beattie: I suppose that, when we look at consumer Scotland's powers, the biggest thing that we see is lacking is that it does not have any enforcement powers. Is that a problem?

Thomas Docherty: It is not, because consumer Scotland is not trying to be an enforcement body. I will put that the other way round. Because it is not trying to be an enforcement body, it does not need enforcement powers. Which? is not an enforcement body and neither is Citizens Advice Scotland. We do research and advocacy. We are not trying to step on the toes of others.

Colin Beattie: I saw Norrie Kerr nod his head in response to my question.

Norman Kerr: I return to my original point. What is consumer Scotland for? It will have no enforcement powers, and we already have organisations such as the Competition and Markets Authority and trading standards, which have such powers. If it will just be another research body that seeks to influence people, then I am sorry, but in my view we already have that across the consumer landscape.

The Convener: Can I interject? I have a question for Thomas Docherty. In the Which? submission to the committee, you say:

> "The proposed Bill provides Consumer Scotland with the necessary powers to adequately represent consumer interest and achieve its stated aim of improving support for Scottish people."

To be clear, you consider that it does not need any enforcement powers or actual powers to make anything happen in order for it to achieve those aims.

Thomas Docherty: Yes, because—

The Convener: What are its powers, then?

Thomas Docherty: I am sorry to repeat myself, but consumer Scotland will not try to act like a trading standards body or a regulator. Those are the two particular areas where it would need enforcement powers. It will try to look at areas such as banking services and access to cash, legal services, telecoms and rail, to give you four examples. None of those issues has had any attention from a consumer body in Scotland in recent years, although members of the committee have lodged many questions and raised issues to do with the quality of services in their areas. We have identified that consumer Scotland could look at the problems with those things and come up with solutions.

As I said, there is also an argument on the question of super-complaints, which could be considered if that was subsequently felt to be useful. Fundamentally, however, we think that the bill strikes the right balance.

The Convener: We will go back to Colin Beattie.

Colin Beattie: I will remain on the subject of what consumer Scotland should and should not do. Would you like it to do anything in particular in the area of consumer redress?

Thomas Docherty: There are a number of areas of consumer markets where access to ADR schemes and ombudsman schemes is not compulsory and we believe that the detriment is severe. There are many areas that consumer Scotland could choose to focus on. I hope that, in the first couple of years, it will carry out an investigation into how Scottish consumers are affected by not having a right to automatic ADR in some of those areas.

Jonathan Lenton: We have some experience of offering ADR in unregulated sectors. We opened the consumer ombudsman service in 2015 following the introduction of new regulations that required all traders to make customers aware of ADR, but traders were never compelled to use the ADR scheme that they had to inform their consumers about. Actually, without—

Colin Beattie: Can I interrupt? The question was whether you would like consumer Scotland to do anything in particular in the area of consumer redress.

Jonathan Lenton: I do not anticipate that consumer Scotland would act as a redress body but, like Thomas Docherty, I think that there are areas in business sectors where the lack of redress causes problems for consumers. I reiterate that that would be an interesting area for consumer Scotland to explore.

Thomas Docherty: I agree.

Jamie Halcro Johnston: A couple of points have been raised about banking. Which? has done a report on Scottish banking, the Scottish Affairs Committee at Westminster has done an inquiry into banking and bank closures, and this committee has done an inquiry into bank closures. There has been research into the problem, and solutions—or, rather, suggestions; using the word "solutions" may be going too far—have come out of that.

You mentioned the loyalty penalty work done by Citizens Advice Scotland. I am in no way trying to be negative about that, but we have known for years that there is an issue about losing out by staying with one supplier. I am struggling to see how the proposed organisation would provide additional opportunities to look at that issue. To some extent, there are already organisations that cover the issues that you have highlighted.

Thomas Docherty: About 18 months ago, I had a wonderful morning giving evidence to this committee on the issue of banking, which is why I raised it. If you recall, I said that we had produced some statistics. We had what I call "What?" statistics—about what the loss of branches had been. We have since put up new information saying that, in the past five years alone, 30 branches have gone from Scotland. However, no work has been done on the reasons why. As I said to the committee at the time, no work has been done on the longer-term impact. It is all very well having statistics—frankly, there is no shortage of statistics, as long as agencies such as ours can produce lots and lots of numbers—but what has been missing so far is an investigation into those statistics.

Jamie Halcro Johnston: Do you not think that this committee and the Scottish Affairs Committee should be doing that, and coming up with recommendations? That is what committees do. We take evidence from organisations such as yours, the banks and various consumer groups and individuals, and come up with suggestions or solutions.

Thomas Docherty: I will use banking as an example, but this would apply equally to telecoms, rail or whatever else. Our advice to the Scottish Government would be based on the work that we have done. We fund ourselves—we are not a publicly funded body and we take no money from the taxpayer. The cost of doing a substantive piece of work to get into the problem in Scotland would be six figures. This committee does not have six figures to spend on that type of in-depth research to understand the everyday finances that people are trying to use. That is work that is not currently being done. Such research would include market research and polling, and doing focus groups in, say, the Highlands and Islands, Edinburgh and Kilmarnock. It would involve proposing solutions and then campaigning. That is where the advocacy comes in. The committee made some brilliant, thoughtful recommendations to UK and Scottish ministers, many of which, disappointingly, neither Government has so far chosen to take up. That on-going advocacy work is the bit that consumer Scotland should be doing.

Gordon MacDonald: I will continue on the research aspect. When a consumer has a problem, they might go to citizens advice or trading standards, or they might phone up Which? for advice. In my constituency, there is also the Community One Stop Shop, which is not aligned with any of the other organisations. There is a wealth of case history out there. Is any organisation pulling all that together to identify trends, problems or areas that should be investigated?

From the lack of response, I take it that the answer is no. There is therefore a need for a body that will do that type of work. In order to do so, it will have to have the agreement of all the organisations to share that data. Are there any issues that would prevent an organisation from sharing that data?

Norman Kerr: I do not believe that sharing the data would be an issue. The question would be how anonymised the data would need to be. Organisations already collect data and they now have General Data Protection Regulation responsibilities. If they are not already collecting data that can be anonymised, the question is what they do with all the old stuff. The preparation of that data to give to a new body might require quite a bit of work.

Thomas Docherty: I have a meeting on Thursday afternoon—I do not know whether Jonathan Lenton will be there—regarding the Scottish Government's data working group that is digging into the issue that Mr MacDonald raised about what we would need to do. We already share data, exactly as Norman Kerr said, and we take out individuals' details in order to do so. It is the trends that are crucial, though. The issue is not that one person has had a bad experience of buying a used car, for example. The data that ADS collects shows that large numbers of people have problems with used cars or with buying furniture, which is another common problem. Pulling together that kind of data is very important.

Gordon MacDonald: Could there be a specific role for the new organisation? For instance, I am aware that there is not a recall database in the UK, whether the recall is about cars or other products—Which? had a campaign recently about tumble dryers, I think. Is there a need for an organisation to highlight to consumers all the recall issues, or the concerns arising from research? We talked earlier about consumer education. Which? has been very good over the years at promoting best-buy products and so on, but there does not seem to be general information out there from organisations, unless you are a *Which?* subscriber. Is there a need for that type of information to be out there?

Thomas Docherty: Yes, definitely.

Norman Kerr: The size and shape of the proposed organisation means that it would have 20 staff and a budget of £2.5 million. However, we are already seeing so many issues mount up that they would be too much for an organisation of that size as it tried to create the database that Mr MacDonald wants as well as get the co-operation of myriad other organisations. If we want the organisation to do that, we need to be explicit in the bill about its role and be more realistic about a budget. Thomas Docherty talked about a six-figure budget for research, but if the kind of money that we are talking about is £2.5 million, we will not get much research each year from an organisation of that size.

Gordon MacDonald: The organisation could have a signposting role in the early days, until the point at which it built up some form of database.

Norman Kerr: It could.

Thomas Docherty: That is absolutely crucial. The Scottish Government has been very clear, and we have all said, that there is a confusing landscape for consumers. It is not always about inventing something new; it is about ensuring that consumers know where to go, whether that is to the ombudsman service for redress, or to trading standards, or to Advice Direct Scotland if what they need is information on their flight rights, for example. I am thinking of the dreadful news over the past two weeks about Thomas Cook.

Gordon MacDonald: Thank you.

Willie Coffey: Thomas Docherty gave examples earlier about some issues that have come up, such as the availability of cash and the disparity in digital connectivity. Is it the case that such issues have never had a home to which people could go to raise complaints or issues? Might consumer Scotland begin to hoover up some of those issues that have not had an obvious home? Is that what the bill and the proposed body will provide?

12:30

Thomas Docherty: That is an excellent question, Mr Coffey, and I think that there are two parts to the answer. First, part of the issue is that there has not been a body that has had responsibility for looking at such issues, to gain an understanding of what causes them and what the redress might be, and to advocate for that.

Secondly, some of the issues—perhaps not ScotRail, but digital connectivity—are emerging. We are all of a certain age; the idea that we would sit with our phones all the time is new. There is an expectation that broadband is the fourth utility. People expect more than just the 10 megabits per second universal service obligation minimum, and they expect to be able to use their phones all the time.

In the past 30 years we have gone from having 24,000 bank branches in the UK to about 7,500. There has been a reduction in ATMs, too.

Those are emerging issues. Again, it is about working with others, such as Ombudsman Services, Which? and CABx, to identify emerging threats and come up with an action plan. I will be so bold as to say that I would be amazed if this committee did not have suggestions for what consumer Scotland might focus on in its first couple of years. It cannot focus on all the issues in its first year. It could probably do two a year, and it might do a third, as it grows.

Willie Coffey: Constituents come to me about the plethora of ridiculous fees that are attached to buying concert and theatre tickets. For example, there are multiple booking fees, so if someone buys four tickets they pay four booking fees. Such issues have been a problem for years. Can we expect consumer Scotland to deal with that issue? How would it do that and make recommendations for—in this case—the UK Government?

Thomas Docherty: In the context of the UEFA nations league next summer, I understand that the Scottish Government will introduce a bill on secondary ticketing—I think that that is correct. That is exactly the type of issue on which consumer Scotland might say, “Look, in Scotland we have a problem. At big festival events and big sporting events, we see consumers being ripped off. Here are our proposals”—although I am not suggesting that it would do that next year. It is not just about going to the UK Government all the time; it is about going to the Scottish Government or the regulator and saying, “We have identified a pattern of bad behaviour, and these measures could be taken to address it.”

Willie Coffey: The new body could look at that issue, then. Has a previous body ever looked at it and had any success?

Thomas Docherty: We did some work on secondary ticketing at UK level, to highlight practices. The CMA, to its credit, has done some work to crack down on people such as Viagogo. However, not enough work has been done on, for example, the extent of the problem in Scotland and the powers of the Scottish Parliament and Scottish Government to address it.

Willie Coffey: There is some potential for us there. Thank you.

Dean Lockhart: As drafted, the bill protects only individual consumers and does not extend to small businesses or sole traders. Has it got the balance right in that regard?

Norman Kerr: As I said, I do not think that the bill is needed, but if it goes ahead, my answer to your question is no. It would need to take cognisance of all consumers, and small traders are consumers.

Jonathan Lenton: We are running an event today at the Tory party conference on exactly that issue, that is, the detriment that is experienced by small businesses. As we see it, a lot of microbusinesses face exactly the same issues as consumers face, in the context of knowledge of the market, bargaining power and ability to enforce their rights when things go wrong.

The Financial Ombudsman Service has just expanded its remit to cover businesses with up to 50 employees. We are limited to 10 employees at the moment. We are arguing that the protection of alternative dispute resolution should be extended, and we certainly agree that microbusinesses in Scotland should be entitled to the same protections.

Dean Lockhart: What would the cut-off point be, based on what is in other legislation? Would it be 10 employees? What is best practice?

Thomas Docherty: The current figure that is used is fewer than 10 employees, for a microbusiness.

Jonathan Lenton: Yes. In the world of ADR, we are used to the definition of a microbusiness as being one that has 10 employees or fewer. Our argument now is that we think that businesses that are slightly larger than that need protection.

The Convener: I have a brief final question. What are your views on the consumer duty aspect of the bill? What do you think of what is proposed in that regard?

Thomas Docherty: We worked very hard, along with other organisations, to persuade the Scottish Government that such a duty would be a welcome step forward. Rail is a very good example of why it is needed. At the moment, there is not a duty on the body that runs the railway to consider consumers in doing so. Anyone who lives in Fife or Dumbarton will probably have suffered at the hands of Scotfail in the past couple of years. That is the kind of area in which people will benefit from the consumer duty.

To be fair, we agree with Citizens Advice Scotland that the specific wording that is used in the bill about having due regard to consumer interests needs to be looked at but, fundamentally, what is proposed is a pioneering step. Scotland will be the first part of the UK to have a consumer duty. The other Administrations are looking at having such a duty. If we get consumer Scotland right and we get the consumer duty right, Scotland will be at the front end—as is so often the case—of improving the environment for consumers.

The Convener: I see that others are nodding their heads. Do you agree, Norman?

Norman Kerr: I do.

The Convener: I thank all three of you. [*Interruption*.] I am sorry—I beg Jackie Baillie's forgiveness. She wants to ask a final brief question.

Jackie Baillie: Absolutely. Thomas Docherty mentioned Dumbarton. Does he not appreciate that members of the Scottish Parliament have consistently raised concerns about ScotRail with the Government? We will have a debate on the issue this week. What will a Government agency be able to do that will be different from what MSPs currently do? How will it be any harder than we are?

Thomas Docherty: The key thing to remember is that consumer Scotland will not be a Government agency any more than CAS is a Government agency.

Richard Lyle: Consumer Scotland will be a consumer agency.

Thomas Docherty: It will be a consumer agency that will be accountable to the Parliament, not the Government. I am always in bewildered awe of Jackie Baillie's tenacity on behalf of the people of Dumbarton, and I would never be brave or foolish enough to say that anybody could work as hard as Jackie Baillie does.

Jackie Baillie: There you go. I think we'll stop there, convener.

The Convener: I think we will. I thank all three witnesses for coming in.

12:37

Meeting continued in private until 12:54.

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Official Report
Room T2.20
Scottish Parliament
Edinburgh
EH99 1SP

Email: official.report@parliament.scot
Telephone: 0131 348 5447
Fax: 0131 348 5423

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