



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Energy and Fair Work Committee

Monday 18 May 2020

Session 5



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Pàrlamaid na h-Alba

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ECONOMY, ENERGY AND FAIR WORK COMMITTEE

14th Meeting 2020, Session 5

CONVENER

*Michelle Ballantyne (South Scotland) (Con)

DEPUTY CONVENER

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

COMMITTEE MEMBERS

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

*Rhoda Grant (Highlands and Islands) (Lab)

*Alison Harris (Central Scotland) (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:

Tracy Black (Confederation of British Industry Scotland)

Liz Cameron (Scottish Chambers of Commerce)

Matt Lancashire (Scottish Council for Development and Industry)

Susan Love (Federation of Small Businesses)

Helen Martin (Scottish Trades Union Congress)

Mairi Spowage (Fraser of Allander Institute)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

Virtual Meeting

Scottish Parliament
Economy, Energy and Fair Work
Committee

Monday 18 May 2020

[The Convener opened the meeting at 09:30]

Decision on Taking Business in
Private

The Convener (Michelle Ballantyne): Good morning. I welcome members, witnesses and people who are joining us online to the Economy, Energy and Fair Work Committee's 14th meeting in 2020. This is the third meeting that the committee has conducted remotely, and I again thank the broadcasting team, on behalf of the committee, for making this possible.

Item 1 is consideration of whether to take business in private. Given the complexities of a group discussion over videoconference, I will assume that everyone agrees to take item 3 in private unless someone says otherwise.

There are no objections, so we agree to take item 3 in private.

Covid-19 (Impact on Business,
Workers and the Economy)

09:31

The Convener: Our main business this morning is to take evidence as part of our inquiry into the impact of Covid-19 on Scotland's businesses, workers and economy. I am pleased to welcome our first panel: Tracy Black is the director of the Confederation of British Industry Scotland; Susan Love is the policy manager, Scotland, at the Federation of Small Businesses; and Liz Cameron is the chief executive of Scottish Chambers of Commerce.

I have had a request from Tracy Black to make a short opening statement. Tracy, if you could keep it short, I would appreciate that.

Tracy Black (Confederation of British Industry Scotland): I thank the committee for inviting me to share CBI Scotland's views on the current crisis. I think that we all agree that it is unprecedented in our lifetimes and presents a serious challenge to the public health and economic wellbeing of Scotland.

That is why we need a joined-up response that protects lives and livelihoods. We are not here to talk about the public health response; we are keen to do what we can to protect people's livelihoods, because we know that prolonged economic stagnation is a risk to people's health and wellbeing.

The disruption to daily life has been staggering, but so has the economic response from the United Kingdom and Scottish Governments, which moved swiftly and on an unprecedented scale to protect jobs and the economy. Even so, the economic damage is likely to be significant and sustained. There are no quick fixes.

A lot has been written about businesses being restless to reopen. That is true; they are. They want to protect their operations and their staff from further economic hardship, but they know that initiating an economic restart requires public confidence. That means that a health-first approach is essential. Otherwise, staff will not feel safe to return to work, customers will stay away and supply chains will be compromised.

A safe and phased reopening of the economy requires timelines. Timelines do not need to be concrete—in fact, they should not be; we will move as the health and scientific advice allows. However, they need to be indicative, to give businesses time to prepare and put in place the necessary social distancing measures.

Protecting lives and livelihoods and initiating full resumption of economic life in Scotland require true partnership between both Governments—national and devolved—alongside business, employee representatives and other stakeholders. That is how we will successfully manage this complex, multifaceted and unique situation.

I will be happy to provide further details on those key issues, and I look forward to answering the committee's questions.

The Convener: Thank you. I will bring in each member in turn to ask questions, starting with Gordon MacDonald.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Thank you, convener, and good morning to the panel. Before I ask my main question, may I ask for clarification from Susan Love, from the FSB? We have been told that there are 356,000 private sector businesses in Scotland. Can you tell us how many of those businesses employ someone other than the owner or director?

Susan Love (Federation of Small Businesses): My understanding, from the statistics on the number of businesses, is that roughly 100,000 of that number do not have employees.

Gordon MacDonald: They do not have employees. Thanks for that clarification.

Have the various funding and support schemes that were introduced by the United Kingdom and Scottish Governments been sufficient to support businesses and the self-employed? Can we start with the FSB, then go to Scottish Chambers of Commerce and then the CBI?

Susan Love: I will first outline some of the recent evidence that we have received from the small business sector. We just had some data from a survey that was open to all small businesses in Scotland, and we reported on it last week. The data is from about 800 businesses in Scotland and it suggests that approximately half of businesses in Scotland have closed as a result of the crisis. Worryingly, of the half that have closed, just over a third worry about whether they will ever reopen.

It is important to look underneath those statistics at the other types of people or businesses that are affected by the crisis and how it has affected them. We also know from the statistics that just under 10 per cent of business owners have applied for universal credit, for example. We are going to break that data down by gender, but I am aware of reports from Women's Enterprise Scotland about the different impact that there might be on female business owners. From past work, we also know that migrant entrepreneurs are less engaged with support systems, so they might be struggling to

access what they are entitled to. I thought that it was important to highlight what we are dealing with here and the extent of the support that is required.

During the initial phase of the crisis, there was a clamour to get support out to small business as soon as possible. The trade-off for making that support available as quickly as possible meant that fairly blunt instruments were developed. There were initially announcements about bank finance and grant support for small businesses, and those have been followed by other support.

At the outset of discussions about initial support, we highlighted to both Governments that some businesses would fall through the cracks because of how schemes had to be developed. There was no easy way around that, but if we think about support for small businesses being tied to the non-domestic rates system in particular, it was clearly going to leave some businesses out. We have highlighted that fact throughout.

Other gaps have emerged since then. We have sent correspondence to the committee to show how we have highlighted those gaps to the Scottish Government, particularly in relation to grant support. For us, it is clear that the newly self-employed—in particular, home-based and vehicle-based businesses, and a group that we have repeatedly highlighted to the Scottish Government that are not rate payers but that are premises based—continue to fall through the gaps. We know there was a recent announcement about additional support through three new funds for the newly self-employed, pivotal funds and tourism and culture hardship funds, but we are telling the Scottish Government that some groups still need support.

On bank finance, although when the coronavirus business interruption loan scheme was launched it was aimed at small and medium-sized enterprises, it quickly became clear from the average amount of finance that was going out to businesses that it was not targeting the smallest businesses. The bounceback loan scheme that has been announced has been great at making bank finance more applicable to the needs of the smallest businesses. The only issue that we have noticed arising from that scheme is that the banks are prioritising their existing business clients; so, if you have a business but you do not bank with one of the banks that is offering bounceback loans, you will wait quite some time.

I am sorry to have rushed through that. It was a bit of a canter through the current support and where we think there are some gaps.

The Convener: Thank you, Susan—that was helpful.

Liz Cameron (Scottish Chambers of Commerce): I will answer the specific question that was posed, which was about the self-employed. There remain gaps in the support for self-employed people across Scotland. I would like to congratulate both Governments, because they moved very quickly, as did local authorities, but the volume of businesses that required support was unbelievable; it was a tsunami. In the early days, the policies of both Governments showed good intentions, but there are still gaps with regard to the self-employed.

We have been tracking the situation since week 2. I will not quote statistics—I will provide those to the committee following the meeting. Last week, we looked at the recovery. When it comes to the self-employed, only 4 per cent of our membership of 13,000 businesses are accessing the loans and grants that are available. The self-employed are major contributors to our economy, so we must look to do more to encourage the self-employed and others when we eventually turn our attention to a recovery plan.

As far as the loan situation is concerned, the majority of our member businesses are not accessing the loans, because their confidence in their ability to pay back those loans is extremely low. They are concerned about taking on excessive debt and not being able to repay that over a period of time.

Susan Love was right in what she said about the bounceback loans, the process for which seems to have been working extremely well—it is quick and simple and, in some cases, the money appears in people's bank accounts within days, which is not the case with CBILS. However, we need to look closely at the debt that is being built up for our economy. That is a separate question, which I would like to come back to.

The self-employed certainly need more support—not just financial support, but support in looking for new business opportunities. In that context, our industrial and economic plan needs to be revisited sooner rather than later.

The Convener: I could not agree more. The bounceback loans have gone into people's bank accounts very quickly, which has been extremely helpful.

Tracy Black: I have a couple of points to make. I echo what Liz Cameron and Susan Love have said. I welcome the scale of the support that has been provided. According to the FSB, more than £100 million has gone out to SMEs and 7.5 million people have been supported through the job retention scheme. It was absolutely right that, initially, much of the support was for hospitality, tourism and retail, but last week's figures from the

Office for National Statistics show that the effect goes far wider than those three sectors.

We have three specific asks for the Scottish Government with regard to business rates in the future. We have asked for a three-month suspension of business rates for all businesses across the UK, regardless of size or sector. In addition, we would like the existing grant schemes to be expanded so that all businesses with a rateable value of between £18,000 and £51,000 are eligible for a £25,000 grant. We would like the retail, hospitality and leisure support grant to be expanded to include those businesses with a rateable value of between £51,000 and £100,000—I think that there are around 2,500 businesses in Scotland in that band—and we would like the small business support grant of £10,000 to be extended to all businesses with a rateable value of less than £18,000, because the crisis is now penetrating extremely deeply.

Our final ask is more for the UK Government. Although we very much welcome the extension of the job retention scheme until October, we ask for a phase-down approach to be taken, because not all businesses are the same, and certain sectors will take much longer to recover—I am thinking, in particular, of hospitality and tourism. We would like that support to continue through the winter and possibly even into next year.

The Convener: I am conscious that that was quite a long introduction. Technically, Gordon, you have run out of time, but is there anything that you would like to pick up on from those answers, or are you happy with what you have heard?

Gordon MacDonald: I have a quick question for Liz Cameron.

You highlighted the difficulties with support for the self-employed. You said that only 4 per cent of your membership have been able to pick up any of the available grants for the self-employed. How would you improve and target that support, given that a lot of private sector businesses are unregistered—in other words, there are no VAT records and no pay-as-you-earn records? Also, people may be working from home and so will not be paying non-domestic rates. How will we target support to the self-employed in those areas?

09:45

Liz Cameron: You are absolutely right about that. There is also the grey economy to consider, as some people in the grey economy have continued to work during this situation.

We have to look closely at ways of communicating with that group of individuals. I would go for a social media focus and use the social media distribution channels. I would also

focus on customer chains, because the main lines of communication for that group of individuals are the mass of social media channels, distribution and the customers that they service. I would initially focus on that type of communication to drive those individuals towards chambers of commerce, for example, and other business support units. However, they must be trustworthy organisations.

With the greatest respect for our public sector agencies, I would not drive those individuals towards them, because, with that particular group, there is sometimes a bit of reluctance to access advice from public bodies, so we would miss covering an awful lot of people who can access funds. We need to drive them towards trustworthy, credible individuals and organisations that they feel comfortable about going to in order to access information and advice.

The Convener: Andy Wightman is next, but I am conscious that Susan Love is trying to come back in. Susan, we will come back to you first after Andy Wightman's question. I am sure that you can weave in what you want to say then.

Andy Wightman (Lothian) (Green): There are sector-by-sector discussions under way about preparing to reopen the economy. How important will it be to design support and strategies in that regard, recognising Scotland's different geographies? I am thinking in particular of rural Scotland.

The other thing to consider is the question of supply chains. We have received a written submission from Bookspeed, which is a wholesale book supplier; it is not eligible for the support because it is not a retail outlet, but it is an important part of that particular supply chain. How important is it to consider different geographies and supply chains in preparing to reopen the economy?

Susan Love: I was going to say earlier that we can send additional correspondence to the committee in relation to our discussions with the Scottish Government about the delivery of these schemes—that may be something for another day. However, there are important lessons to learn about the delivery mechanisms and how our digital public services are set up to enable all this support, which we should come back to at some point. I can also follow up with more information on the self-employed for Gordon MacDonald, if that would be helpful.

Broadly speaking, there are some obvious differences between the rural and urban economies. For example, the rural economy is more reliant on certain industries, there is a much higher proportion of self-employed people and there is more unemployment. Private sector

employment in rural areas is far more likely to be in small businesses and there are issues around the available workforce and connectivity.

An obvious feature of the rural economy to consider in relation to the crisis is the importance of the visitor economy. We did some work with our members a few years ago, which revealed that about a quarter of our members across Scotland felt that they were touched by tourism in some way in their business. That figure goes up to about half our members in the Highlands and Islands. If you look at the statistics that I mentioned earlier, you will see that businesses in the rural areas are more fearful about whether they will reopen than those in urban areas.

On the responses that are needed in rural areas, Tracy Black mentioned the longer-term view of the hospitality sector. We may come back to that, because it is clear that on-going support will be needed for tourism and hospitality. However, in thinking about business support interventions in rural economies, we need to think beyond tourism businesses, because the wider chain of businesses that are touched by the visitor economy is often underestimated—as I mentioned, half of our members consider that they are involved in tourism.

We are trying to look at the broad range of businesses: for example, business and personal services firms, accountants, information technology, graphic design, photography, and not least the food and drink producers, wholesalers and retailers. All kinds of businesses are affected, so if we are thinking about what business support looks like, it would be a mistake just to target direct tourism businesses such as visitor attractions or accommodation providers. We need to think about the knock-on and employment impacts on other firms.

We will always advocate recognition that business support should be from the ground up—thinking about what can be done in each local area, according to what is appropriate for that local economy.

Tracy Black: I echo everything that Susan Love has said, across the board.

On the question of rural versus urban, we see that the crisis is everywhere, even in sectors and companies that we would have thought quite robust. In the energy sector, for example, some big companies expect a 20 per cent drop in profit. In any normal year, that would be significant. Supermarkets have seen real change in consumer demand.

Looking cross-sectorally, broadcasting is an essential service, but advertising—a key source of its income—has been completely subdued. When it comes to our farmers, consumer trends are,

again, changing: for example, the market for high-quality meat, which usually goes to restaurants, has vanished; also, a huge amount of milk usually went to our coffee shops.

Airports have had a catastrophic time. They need to remain open for freight and post, but have huge fixed costs. As we are aware, our universities are experiencing a big impact on international student numbers. Many companies in Scotland support the aerospace and automotive sectors. No one expects many people to rush out and buy a new car in the coming months, or that airlines will upgrade their fleets. The question of the supply chain is absolutely critical. We have echoed back to the Scottish Government that if they are going to follow a sectoral response, they must be aware of the sophistication behind those sectors.

Construction is a good example. Of course we want construction to restart but, without conveyancing, lawyers or estate agents, we cannot get the property market moving.

Susan Love did a good job of explaining about hospitality and tourism. Last week, for example, a company in the laundry sector made redundancies.

We need a comprehensive look at recovery for all areas of Scotland and across sectors, rather than just putting sectors in silos.

Liz Cameron: I echo what Susan Love and Tracy Black have said.

However, rather than continuing to look at business support and business grants, we should also take a broader view of the development of a recovery. That broader view must look at whether there is a way of reducing business costs. That would be more beneficial in the medium to long term, to many businesses, than a continuation of grants that governments cannot afford in the long term anyway. Let us look at the policies that are within the authority and the autonomy of the Scottish Government, and at how we can reduce costs and redesign some of those policies.

I also want to talk about the sectoral approach. Everyone is focusing on sectors, but a lot of businesses do not fit neatly into a sector. It is important that that is taken into consideration in the design of return-to-the-workplace plans, so that businesses that drive rural economies, in particular, are considered carefully.

We need to look at redesigning our whole supply-chain focus. There will be opportunities as the majority of countries across the globe redesign their supply chains and bring them more in house. In Scotland, we need to look seriously at how we go about our economic planning—there has to be major change.

On connectivity and the changes in that regard, we need to think about what we are spending our money on. We have £32 billion: what are we going to stop doing and where are we going to direct that funding? Technology is showing us new ways of doing business and consuming, but some parts of Scotland are put at a disadvantage from day 1 because they do not have connectivity.

The Convener: Thank you. A lot of businesses are now looking carefully at the challenges of reducing business fixed costs and creating vertical integration.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Businesses are concerned about a potential lack of alignment between the UK and Scottish Governments' plans for reopening, which some people suggest will put Scotland at a competitive disadvantage. The point is driven home by information that has come out today. Are such concerns justified? What are the panel's views on the nature of the engagement between the UK and Scottish Governments on economic matters? Perhaps Tracy Black will respond first.

Tracy Black: It will be hard to keep my response to a couple of minutes.

It has been challenging for Scottish businesses to keep track of the changing environment. However, I must stress that businesses absolutely get that this is a public health crisis first and that they need to—and absolutely want to—put the health and wellbeing of their employees, their customers and the people in their supply chains first.

In the early days, it was difficult when we saw the UK Government encouraging businesses to stay open—a biscuit producer could still make chocolate Hobnobs but producers in Scotland were told that they could not make shortbread, and there was English gin on the supermarket shelves but we could not get Scotch whisky.

There are three points that I want to make about the model. We absolutely get that the when might differ in different parts of the UK. That has to be science led. However, we do not believe that the how needs to vary. We strongly urge the Scottish Government to look at the UK guidelines that came out last week and to focus on workplace settings, because the reality is that whether someone is entering a shop or running a bottling line in Glasgow or in London, they face exactly the same issues.

We would like Scotland to appreciate that many firms work across multiple environments, so it is hard to fit them into the sectoral approach that we have been talking about. For example, a construction company will have offices and might have people working outdoors, indoors and in

vehicles. Large retailers will have offices, manufacturing facilities, warehouses, stores and delivery staff. Sectors are interdependent, as we have said.

There should not be divergence for the sake of it. There needs to be a clear, evidence-based reason for divergence.

We have seen divergence on timelines, too. In England, clear goals have been set for when businesses can reopen. We have seen the same in Ireland and in Norway. Those timelines can be flexible and they must be set by the scientific and medical community, but they give a clear outline to business. Businesses cannot just restart overnight; they need to get their supply chains back in place, get their staff trained on social distancing measures and look at their cash flow.

10:00

That is where the unified approach is critical. I hope that I have got across that we absolutely support a four-nation approach that supports difference, but there needs to be clear evidence to do so, so that it is in the interest of the nation's health and economic wellbeing. Without unity we will not be able to build the confidence that is required for people to feel safe; if they do not feel safe, workers will not return, customers will stay away and the restart will falter.

I cannot stress enough how important it is that we have genuine partnership between business, Governments and employee representatives to grow public confidence; bringing together stakeholders to develop a consensus on how we approach the restart is a key role for both Governments. My final point is that we want to avoid a repeat of the tensions that we saw between employers and workers that were partly caused by contradictory guidance and which businesses could continue to operate during lockdown.

Sorry—that went over my time a bit, but it is a very important question.

The Convener: Yes, and a comprehensive answer. Does Colin Beattie want to add anything?

Colin Beattie: I read in the evidence that we received that for many businesses it would take up to three weeks to gear themselves up for going back into business; that is the sort of timescale that people are looking at. Is that valid, or is it so varied that some businesses might take a week and others three weeks or a month?

Susan Love: For us, it will vary according to what type of business it is. What really matters now for small businesses is getting the information right, so that it is as effective as possible. We want businesses and employers to understand what is

being asked of them, so that we can get businesses back to work in the safest way possible; the fewer different messages there are, the easier it is to communicate to those hundreds of thousands of businesses. We have been involved in the retail guidance that the Scottish Government is developing, but I would not say that we are well sighted on the other plans the Scottish Government has. We know that there are three specific sectoral guides being worked on and another 11 that other trade bodies are involved in. We have asked what the general plan is to make clear what steps would be required of the average microbusiness. As Liz Cameron said earlier, many small businesses do not fit neatly into any particular sector; they might be general, personal or business service-type businesses. Where do they go? Is it clear to them what we want them to do?

We have asked the Scottish Government to prioritise three steps. The first is that we need the guidance in clear and easy-to-understand steps that are designed for the smallest businesses. Secondly, we need support to go along with that to help them implement the guidance. For example, if they are not sure that what they have done is right for their circumstances, who can they speak to to advise them and reassure them and their staff that they have done the right things? Thirdly, we need reassurance for the public that it is safe and appropriate for certain businesses to go back to business when the time comes and what is expected. We have asked the Scottish Government for that. Tracy Black is right to highlight that at this stage it is more about the how than the when.

Liz Cameron: In answer to Colin Beattie's question, we have just finished our final tracker on economic recovery. It shows that 38 per cent of businesses indicated that they could set up within a week, provided they had at least a date and a plan to work towards, which is quite important, and 31 per cent said that they would need at least between one and three weeks. That comes to 69 per cent, which is not 100 per cent of the responses, but it gives some indication. Again, as my colleagues have already said, it depends on the business that you are in. Bigger operations will obviously require more time to implement good, safe working conditions. Small family businesses could do it much quicker if they have the tools to do it.

I agree with Tracy Black's comment that some businesses will need investment, so we are reviewing what business grants and support are around. Some businesses need cash investment, which might be only a couple of thousand pounds for a small business versus £50,000 to £100,000 for others, but they do need some help, especially given the current cash crisis.

I have two more points to make. Transport has been talked about. We have been fortunate enough to be able to watch the situation in England for the past week. I understand that the Scottish Government is developing transport plans. Even when we get a potential window, not all businesses will rush back. A lot of us who have been working from home have realised that our working models are changing. The crisis has transformed the way in which we work and many businesses that can continue to operate from home will do so in order to ease the situation with public transport. We will not rush back until we are clear that we have an effective transport system that will safeguard our employees when and if we decide to return to the workplace.

My final point is about personal protective equipment. That must be built in to the return-to-work guidelines. Frankly, if I ask some of my employees to come to the office—which I will not be doing, I hasten to add—I will want to know that we have enough PPE to deliver what businesses will require for themselves, their employees and their customers. I do not yet have an answer to that question.

Alison Harris (Central Scotland) (Con): Good morning. I will start with a question for Tracy Black. The committee is aware that plans are being developed for reopening some sectors. Who is leading on those plans—is it the Government or industry? How will those plans be monitored and enforced?

Tracy Black: As I said earlier, we recommend that the Scottish Government uses the UK Government's workplace setting guidance as the basis for the sector approach. The question about who is leading is one of the key questions that we have been asking the Scottish Government. It is essential that we have transparency around who is involved and how to be involved so that decisions can be based on the correct evidence.

We have found it quite challenging to find that information. We have talked to a number of our members, and certain areas seem to be missing. There are 14 working groups, including one on energy, but I know that one of Scotland's key energy companies is not involved in the discussions. We know that one group is looking at life sciences but, again, I know that some of the key trade associations in that area are not involved. We strongly urge more transparency, to give the public confidence that the right people are part of the plans.

The Convener: Liz Cameron, are you aware whether any of your members have been consulted on this?

Liz Cameron: Very few. We are also asking a lot of questions in an attempt to contribute our vast

experience and expertise from all parts of Scotland. We appreciate that the Government has had to move quickly and that it cannot engage with every business in Scotland. However, we are coming to this in partnership mode and we look forward to engaging in a more transparent and effective manner than has been happening up to this point. I have no idea who is monitoring and enforcing. I have no information or intelligence to share with the committee in that regard.

Susan Love: I will briefly add something to that, as I am a bit of a regulation geek. When we talk about regulation enforcement and compliance, the question of how we do that well is often forgotten. It will be really important, particularly in the early days of businesses getting up and running—in the first few weeks—that we have an adequate capacity of those who will enforce and that it is clear to businesses, their staff and the public whom they should contact if there are any concerns. For the majority of small businesses, local authorities will probably be the main enforcing bodies. The Health and Safety Executive will have a role in certain sectors, and I believe that an agreement has been reached between it and local authorities. However, we want to ensure that we have thought ahead about potential difficulties, what the regulating body will be in each circumstance and what the business's responsibility will be.

I do not know whether we will talk any more about the practical implications of physical distancing in restarting businesses, but there will be a lot of people queuing in our towns. A lot of people will be lining up in streets, and we need to be clear about whose responsibility that is—about who will turn up to enforce if any issues arise in town centres, for example. That will probably be local authorities.

We know that, over the past 15 years, there have been umpteen reports about the declining resources in regulatory services in local authorities and their lack of capacity. That issue needs to be addressed so that businesses and the public can have confidence that there will be adequate support as well as compliance activity.

Liz Cameron: I want to come back in on the word "enforcement". We are starting from the wrong premise. Let us start from the premise that businesses already adhere to health and safety regulations. If they do not, local authorities and others absolutely should be policing that and taking appropriate action. However, the majority of businesses are responsible. We are human beings and we are accountable, so we want to own the agenda, as well.

I have to be honest and tell the committee about what I have seen and what I am hearing from businesses throughout Scotland. We are taking

seriously the focus on looking after our employees and ourselves—it is our top priority—so perhaps we can move away from enforcement. I take Susan Love's point: we do not have the resources, so who will enforce? It is up to businesses to be accountable for that with the additional guidelines, suggestions and help. However, we have to change the question around. For business leaders and the majority of businesses in Scotland, the issue is our health and our lives, so let us get in a wee bit of the human factor. We are human beings, and we have a responsibility and accountability for everything that we do. We own that.

The Convener: I could not agree more.

Does Alison Harris want to ask about anything else?

Alison Harris: No. I am very satisfied with the answers from all the panellists, which have been very helpful.

Rhoda Grant (Highlands and Islands) (Lab): I am interested in those comments. I get a lot of feedback from constituents who are really afraid of going back to work, because everyone has heard loud and clear the message that people need to distance to stay safe. Social distancing will be a big part of getting back to work. What impact will that have on businesses? Will they be able to ensure that? Will they be able to operate as they have previously operated, or will the need for social distancing create an impact on income?

10:15

The Convener: Will Tracy Black answer that question first? The question was about whether businesses can operate at an optimum level of income or whether the need for social distancing will mean that a lot of businesses could go out of business.

Tracy Black: That is a really good point, and it is a real concern for many companies. To be clear—as Liz Cameron said—businesses are responsible and will put their employees' safety first. However, because social distancing is probably going to be with us for a long time, the harsh reality is that, even if employers move to shift work, such as night shifts, and changes to production lines, businesses are unlikely to be able to get to full capacity—certainly in the manufacturing industry.

Some of our members reckon that they will be operating at around 60 or, at best, 80 per cent capacity. For many companies, that is not a viable proposition—particularly in industries that have very tight margins, like the automotive and aerospace industries. It is a real concern and comes back to the need for tailored support for

sectors that will take time to recover. We want to push the message that it is about building back better. Incredible things have been achieved in a very short period, and we must build on the innovation and flexible working that we have seen.

Tens of thousands of people are working from home, and we must help and support companies that have not gone digital to get there, so that they can attract customers from a wider area. We must look at the sectors that can thrive in this kind of environment, such as the digital and creative economies and the financial services industry, in which work can be done from home.

It is about investing in and giving support to businesses to do those things, and about how we can get the economy moving again. Can we do more on the climate change agenda in the construction industry, and can we stimulate consumer demand by giving grants to refit properties and go green on energy? The issues are the same in the aerospace, automotive and transport industries.

In the digital economy, we need to advertise free training in how companies can upgrade their offerings. Our universities and colleges have a huge role to play through their research and development and skills training. Some sectors will really struggle, but there are others that we can support, and we must be focused on providing incentives across those sectors.

All that businesses want to do is get back to doing what they did before the crisis. For thousands of them, that was being successful and profitable and having great products and customers. That is what they want to get back to, and we need creative ideas on how to do that.

The Convener: Thank you.

Susan Love, small businesses—particularly pubs and restaurants that are independently owned—are running on tight margins and are not getting a lot of finance to support them through this. How will they cope with the social distancing restrictions that will come in?

Susan Love: The first thing to say is that we are operating with quite a lot of change to businesses without any real work being done on the cost or impact of that. Therefore, we are all moving quickly to understand what might be required of businesses and how they are going to adapt.

For businesses that are in the first phases of going back to work and restarting, there will be some initial adaptation costs, which will vary according to the type of business. We can already see some of the measures that businesses that are still open on our high streets have introduced and will introduce, and we can expect more of that. It will be more difficult in certain premises, or

it might be more costly if a business moves its staff around in vehicles, because it will need to use more vehicles.

We then come to the questions about viability. The hospitality sector has highlighted the serious viability challenges that it is going to face because of social distancing requirements. However, there are other types of businesses for which that will also be a challenge. We have highlighted the case of small shops that rely on the visitor trade or passing trade. Will such shops continue to be viable if they are limited to a handful of customers coming into the shop at a time and if people have to queue?

We know that there are an awful lot of small businesses in the personal care and wellbeing sector, and being close together is the definition of the services that those businesses provide. It remains to be seen how they will manage. In the interim, a number of such businesses have been quite innovative and have begun to deliver certain services online. Quite a lot of yoga and beauty therapy businesses, for example, are offering consultations online. However, given the reduced prices that they can charge, the viability of that in the longer term needs to be explored further.

It is worth highlighting that, although there will be a lot of challenges, there will be some opportunities that we should build on. An awful lot of small businesses have changed their business model, particularly to respond to the public's increasing demand for services with reduced public contact. I am sure that lots of you will have been using the services of local food and drink producers and suppliers, which have robust supply chains and can deliver in their local area. One opportunity comes through thinking about how we help those small businesses to keep new customers, how we make the growth sustainable and how we help them to do that in a more productive way.

There are clearly challenges and costs for businesses, and there will be questions about longer-term viability, but there are also some opportunities. As we think about what business support we need to change, we should target support at where there has been some business success, so that we build on it.

Liz Cameron: On the point about reimagining our businesses, we are already doing that. Previously, many small and medium-sized businesses did not use technology. We all said that we must move forward by taking our businesses more online, carrying out training and doing e-commerce, but a lot of us did not do that. The crisis has forced us to utilise technology more than we have ever done. Use of technology is very important, and that is where my earlier point about connectivity comes into play.

On the point about who will return to work, according to our last tracker, as of last week, 43 per cent of businesses were not confident that they will survive the crisis. Even if guidance is issued, a number of them are not certain whether they will return to the marketplace. Even with the job retention scheme, there will, unfortunately, be a massive rise in unemployment when we begin to look at the capacity issues that my colleagues have raised.

I will give another key high-risk area. Eighty-five per cent of businesses are concerned about lost income levels and their ability to reopen with 10 per cent of their customers while having in place proper and effective social distancing measures. If businesses start up, can they survive until whenever we are able to extend the easing of social distancing further? Capacity is a big issue for many businesses.

When we start to look at returning, we should look at our procurement policies, at buying local and at sharing resources from business to business. That might not sound very innovative but, by gum, it can make an awful difference if we start sharing costs at a local level and start building procurement alliances at local and Scottish levels. I would like a wee bit more of that thinking to come into the recovery plan.

Rhoda Grant: We are aware that young people will be greatly affected by job losses. How will we ensure that they remain working in the market, because they will have less experience? Also, has any thought been given to working with trade unions and health and safety representatives, so that people are given the confidence and reassurance that they need that it is safe to go back to work?

Liz Cameron: To answer your first question, we are all concerned about young people on our apprenticeship programme, which had been taking off really well prior to the crisis, and also graduates who are coming into the marketplace with the limited job opportunities that we have just discussed.

I have therefore started discussions with Skills Development Scotland in which I have said that we need a different skills development plan. The situation is such that, especially for a lot of the lower-paid individuals in our marketplace, jobs will be disappearing. Therefore we must look at reskilling and retraining such individuals for new opportunities, but we must do so quickly. We must look at the skills of young people who are coming out of our colleges and universities and then explore potential partnerships between them and our many small and medium-sized businesses. Such individuals could have the level of technical skills that many such businesses do not currently have. Would it not therefore be better to come up

with partnerships that would utilise their talents, at the same time as helping such businesses to gear up for the new business environment that we are all about to enter?

Work on that should be being done now; we should not wait until individuals unfortunately lose their jobs, which will lead to increased unemployment. We must also remember individuals in junior positions, a number of whom will also lose their jobs, and businesses that are in the middle range.

The Convener: It is a very worrying time.

Susan Love: All the guidance that I have seen so far has been clear about what our expectations should be. It almost does not need to be said, but businesses must work with their employees to discuss the adaptations that will be required to achieve physical distancing in workplaces.

I turn to the wider point about young people. At the start of the meeting, I mentioned how differently various demographics might be affected by the crisis, and I gave the example of female business owners. I am sure that the representative from the Fraser of Allander institute will talk about this in more detail in the session with the next panel, but I point out that, last week, McKinsey published a report that looked at the parts of the country in which employment was more likely to be at risk. The group that was said to be at most risk was young women.

I appreciate that the current situation is not exactly the same as the financial crisis, but we know from that crisis that small businesses held on to their employees and there was not the level of job losses that had been expected at the start. If we are to respond to this situation and focus on the issue more strongly—I am sure that we will have lots of employability schemes, for example—we need to understand what works and what types of support microbusinesses need in order to have successful placements. We might come on to talk about those aspects in more detail. I think that small businesses will hang on to their staff but will need support with placing more jobs in the future.

Tracy Black: I have a couple of points to add. We share Liz Cameron's concern for the thousands of young people with apprenticeships, but the situation will apply right across the board, so we cannot have what we might call either/or support.

There have been examples of companies that have done a good job in that area. For example, Michelin in Dundee had a constructive and proactive way of engaging with its staff when it made the announcement that, sadly, it was closing down. It focused on the options for retraining as well as those for redundancy and retirement. I know that Skills Development Scotland worked

closely with that company, but in this situation we will need an approach that will work across all businesses.

It will also be key for employees to have confidence about going back to work. Having successful messaging on that will be critical for the Government, which has led so strongly on public health messaging about staying at home during the current crisis. However, people will also look to it to provide confidence that the health and safety guidelines work. It cannot be for business to decide whether the 2m distancing is right or not right. All business can do is follow the guidelines and rules that are applied.

10:30

In response to the question about working with the HSE and the unions, I note that the CBI has been working extensively across the UK, particularly down south, with the Trades Union Congress and the HSE. We very much welcome that partnership and its insights, and we would like to see that working better and stronger in Scotland. It is critical that we send a message of unity to our employees that we all agree about the guidelines and we all believe that they are safe.

The Convener: That is key. We need to work in partnership to make this work, whether you are an employee, a union member, an employer or a member of the public using the services of the business.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): To save a bit of time, I will ask only the one question about post-lockdown support for business. Tracy Black, in your initial remarks, you said that we are facing “significant and sustained” economic damage. I presume that all witnesses agree that business support schemes should not be switched off overnight when lockdown ends. Has any modelling been done that you know of to estimate the extent of the cost of such support and, of course, how we will pay for it?

Tracy Black: I think that everybody around the world is trying to model that. I know that the committee will take evidence from Mairi Spowage of the Fraser of Allander institute in the next part of the meeting; we have been having a lot of discussions with people at the institute, particularly Graeme Roy, as we have huge respect for the work that he does. Our economists are also looking at this.

It does not matter what model or method we use, none of the figures coming out are good. Everything shows that the crisis will have an incredible impact. One of the biggest challenges is that we are not all in tandem. The financial crisis pretty much hit everybody at the same time. Now we are seeing some parts of the world coming out

of the crisis—we have seen some sort of recovery in China—while others, such as Brazil, are just beginning to feel the bite. We could debate the best way to measure, but the reality is that the figures do not come out good.

However, a key point is that we must not try to reinvent the wheel too much either. A lot of the problems that existed pre-Covid—productivity, regional inequality, the ageing population—will still be very much problems after it. We have done a huge amount of work on that. Business is looking for solutions and action, not for us to wipe the board clean and start all over again. We need to tackle the problems that have been around for a long time. The only problem with that is that they have probably been exacerbated and there needs to be an even bigger spotlight on them.

Liz Cameron: It is also about the pile of debt that we have built up. I understand that the banks are working with the Scottish Government and the UK Government on some kind of recapitalisation programme. The debt pile is going to go up to something around £105 billion.

Tracy Black's point is quite valid in that Scotland was not in great shape before this. We are facing challenges and we were working on those challenges. We have built a lot of debt up and deferred a lot of payments, whether it be to HM Revenue and Customs, or VAT, or through taking pauses in our mortgage payments or rent or whatever. All that will come back to the fore.

I am sure that someone somewhere is looking at some kind of modelling, but we are not at that stage. We do not have that intelligence, I am afraid. However, it is a good question about where the recovery plan is.

As I have said, the problem is global, and within that plan we need to be serious about supply chains. We also need to be serious about the deglobalisation agenda, because we were pinning a lot of our growth on increasing our exports and working on our import planning, and there is now a complete redirection. The Scottish Government needs to look carefully at a plan to help our businesses in the new global marketplace.

Susan Love: Let me pick up on Liz Cameron's final point about how we go forward. Members would expect me to say that we have always stressed the importance of resilient local supply chains, which are often underestimated in economic strategies. I hope that this crisis has demonstrated why resilient local supply chains are important. My fingers are crossed that that can be reflected in new priorities.

Willie Coffey: Thank you.

Dean Lockhart (Mid Scotland and Fife) (Con): Last week, an FSB press release expressed

concern that business support grants are not being received in Scotland. Will Susan Love give us an update on that and say what action might be taken to expedite the processing of grants?

Will the CBI and Scottish Chambers of Commerce talk about the policy response that is required from the UK and Scottish Governments? What are your views on the success of the UK job retention scheme? Has it kept employees close to their jobs? What are your top one or two policy requests of the Scottish Government, now that it has set up the advisory group on economic recovery?

Susan Love: On the payment of grants, as I said, right at the outset of the crisis we were concerned about councils' capacity to deliver support quickly, because our work on non-domestic rates reform over the past few years has given us an understanding of just how clunky the various systems behind the scenes are. However, we were reassured that the Government had spoken to councils and that councils could manage a schedule of 10 days from application to payment.

As it turned out, although the scheme was launched on 25 March—or towards the end of March—here we are in the third week of May with just under 20,000 of 74,000 applications still outstanding.

There are a number of reasons for that. Let me give you an example: Scottish assessors hold a register of properties on the valuation roll, but local authorities work from a different database of ratepayers whom they bill, and there has been confusion about who holds which business information on which database. There has also been the difficulty of getting different computer systems to process all the pieces of information. Throughout the process of non-domestic rates reform, we have highlighted the need for better digital-facing public services, including the rates system, for businesses, in the longer term.

In the short term, we have said that the Scottish Government and councils need to get together as soon as possible to address the outstanding problems. Some of the applications that are still being dealt with contain incomplete information and the applicant needs to get back to the council to confirm matters. We are aware of a number of cases in which there is a dispute about how councils are interpreting the detail in the Scottish Government's guidance. Councils sometimes say to us, "We're waiting for more information from the Scottish Government." We need the Scottish Government urgently to speak to councils to clarify all those points so that grants can be paid as soon as possible.

Let me quickly comment on priorities for the economic recovery group. The group really must focus on practical policy interventions that will help in Scotland. We are all aware that our shared priorities are exactly the same as they were before this crisis. We all want to move towards a net zero economy and we all know that we need to have a fairer economy. Those challenges are still there; if anything, they are more difficult now because there is less finance to help us achieve those goals. How we ask small businesses to adapt to a net zero economy, given the nightmare that many of them are in at the moment, will be an immense challenge.

We do not really want more well-intended statements about where we want our economy to go. We all know where we want our economy to go, but we need to understand the practical steps that will take us there.

The Convener: Absolutely. We will hear from Liz Cameron next.

Liz Cameron: Without JRS, we would have had millions of job losses across the UK right now. Over 70 per cent of Scottish businesses are accessing and using JRS. It was good that the UK Government moved quickly to introduce it and to get funding. The scheme has been successful.

We asked for JRS to be extended, and I was really pleased about the chancellor's announcement that it will be extended to the end of October, albeit that we understand that it will be tapered. We are waiting for some more detail around that, to work out what it means. I think that it should be focused on the needs of the businesses, the number of jobs and their contribution to the economy, and it will vary from nation to nation across the UK.

There is talk of perhaps looking at 100 per cent support for those who are in a different position and then tapering it to 80 per cent and, eventually, to 50 per cent, with the businesses paying an increased contribution. That is fine, because businesses want to get back to trading and earning their own money. People want to get back to job security and to earning their wages and their salaries.

We have to make a move. I understand why tapering is being proposed, but it must be done with minimal regulation and bureaucracy, working with businesses to understand their ability to trade and how long it will take them to fill the gap. It needs to be driven by different criteria.

I mentioned the figure of £32 billion. Given the possibility of additional funding coming through the Barnett formula, it is important to look seriously at the policies and the plans that were in place and to determine whether they are still appropriate to help not just to grow our economy but to sustain

the jobs that we all want to sustain here, in Scotland. That is critical. Where those policies do not contribute to that objective, they should be put aside right now. We should look closely at what we are funding and at what we are deciding not to fund. It is important to properly measure the impact of those decisions on our economy.

We should be looking at business costs. What can we do to reduce the costs of Scottish businesses of every size in every sector? That will be one of the determining factors in whether we can not only continue to create jobs but reduce the number of job losses that will become apparent.

Tracy Black: There is not much more to say about JRS, as Liz Cameron and Susan Love have covered it very well, except that, without it, we would have seen rapid unemployment, which none of us wants to see.

One concern is about people's perceptions of the situation. JRS has perhaps hidden from the wider public the scale of the problem. There is a lot of talk about how we must not go back to the way it was—we must have a brighter future. We want to get behind that, but what did we have before? We had pretty much zero unemployment. At last, after a decade of austerity, we had wage growth. Now, the future is looking a lot gloomier.

That is where the advisory group comes in. We want to think about how we support business to grow. One of our key asks concerns simplicity and speed. For many companies, it is about survival for the next 12 months and beyond. We can be ambitious, but we have to be realistic about what businesses are facing.

10:45

We are also keen to know how the group fits in with what is already in place in Scotland. We have numerous strategies—for example, economic, digital, energy and circular economy strategies. We have sector-specific strategies, including those for food and drink, tourism and textiles. We also have more than 20 advisory boards, such as the infrastructure commission for Scotland, the Poverty and Inequality Commission, the just transition commission, the Council of Economic Advisers—I could go on. Business is asking where the group fits in among all the good work that is already going on.

As I said in a previous answer, we do not want to start afresh. As Susan Love said, we know what the challenges are and we know where we want to go. Of course, we want to work in a fairer society. Of course, we want to get rid of inequality. However, critical to all that is an economy that is growing. As I said in answer to a previous question, our policy asks are about how to help businesses to get back on their feet again and

grow. That means real action on the productivity question that has been eluding us for years.

We need to think about how we help sectors such as the construction, automotive and aerospace sectors. Apprentices are vulnerable to redundancy, but we have a great education sector and perhaps the college sector can come in and take the pressure off business over the next few months. Our universities have some bandwidth, if fewer students are coming in. Could they start looking at the upskilling and reskilling message?

Business is not always looking for handouts. It wants things that give consumers back the confidence to spend money, and it wants to invest and grow. It is all about building a stronger and more resilient economy. That is what we are looking for.

Dean Lockhart: I will be brief, because I appreciate that time is tight.

Thank you very much for those very useful replies. I have a brief follow-up question about the policy response that business is looking for. Would Scottish business like the policy response to be consistent across the UK in order to avoid divergence between Scotland and the rest of the UK?

I also have a specific question about the deposit return scheme. Is it the right time to implement the DRS, or would that impose an unnecessary burden on Scottish business at this stage?

Susan Love: You are probably aware of our concerns about the DRS. The implementation date has already been pushed back—we had said that it was ambitious at the best of times.

We will need to revisit things as the situation changes over the coming months. The right balance must be struck between finding the right interventions for local economies and having the consistency that will make it easier for businesses to understand what is available to them, and that must be applied in the most effective way possible.

The Convener: Thank you. It is clear that things can be different—for example, when it comes to guidance on how businesses should behave when they return. Liz Cameron, will you comment on that?

Liz Cameron: That is where there must be consistency. As Tracy Black indicated, a lot of work has been put into the UK guidelines—whether you agree or disagree with them. My understanding, from a call last week, is that the Scottish Government is looking closely at UK guidance, because the guidance should apply across all of the United Kingdom, where that is appropriate. That consistency message is quite important. It is important to have consistency,

otherwise, we are going to cause more confusion during the recovery.

When it comes to the deposit return scheme and other policy areas, such as planning and business rates, on which there is divergence, we need to reprioritise. I am not saying that those policy areas are not important—they are; the conversation about climate change that we were having before the pandemic began is especially important—but a reprioritisation is necessary. We need to look at what we can do quickly to help our economy to get back on a level playing field.

The Convener: Gordon MacDonald would like to ask a short supplementary question.

Gordon MacDonald: I have a quick question on the back of what we have just heard. I agree 100 per cent that consistency of approach is important for business across the UK, but at what pace should change be brought about? Should that happen at the pace of the slowest member? Tracy Black said at the outset that it is a case of protecting lives and livelihoods, that there needs to be public confidence in the approach that is taken and that a “health-first approach” is necessary. If the three devolved Administrations have agreed on a slower approach to changes to the current lockdown, who is out of step? Should we proceed at the pace of the slowest member with regard to the R number, the number of cases and so on?

The Convener: That was a very loaded question.

Tracy Black: I think that the “When?” is not in debate at the moment and that business is happy to follow the guidelines on when it is safe to reopen. As we have discussed, the real issue when it comes to divergence is around the “How?”

Companies and their staff are in an incredibly stressful situation at the moment. Back at the beginning of the outbreak, when there was divergence in relation to second properties and getting grant support, that variation between Scotland and England added huge pressure. For some businesses in Scotland, it felt deeply unfair that equivalent businesses in England could be getting four, five or six times more support than they were getting. Wherever there is divergence, there will be huge scrutiny of that, so the reason for a nation taking a different approach needs to be backed up with evidence.

We must look at companies that have continued to operate throughout the crisis. The supermarkets have been seen to have done a fantastic job in keeping food flowing around the country. If each nation had had four different policies on how supermarkets should operate, as well as creating confusion and stress for customers, that would have been immensely stressful for staff, who would have thought, “Is my supermarket as safe

as supermarkets 200 miles away, which are working under a different system?" We must ensure that such decisions are taken on the basis of an evidence-based approach.

As I said, I do not think that any business will argue about the "When?" if the advice is backed up by the scientific community telling us, "It's safe now," or, "It's not safe now." It is on divergence with regard to the handing out of support and how businesses are allowed to operate that the issue of fairness comes into question.

The Convener: Thank you—that was well put.

Richard Lyle (Uddingston and Bellshill) (SNP): My main question is about the banks. I have found that lenders have failed to be sufficiently flexible, given the circumstances. Some banks appear to be using normal commercial criteria, requiring normal paperwork, applying unchanged timelines for processing or requiring personal liability.

I should declare that I used to work for the Royal Bank of Scotland. I have found that, although RBS has been very helpful and quick, I have had to speak to other banks on behalf of constituents. Are banks being too slow or overly careful in providing support or financial help? What is your view of the role that financial institutions—banks—have played so far in the Covid-19 crisis?

The Convener: We are quite tight for time, and we are well over the time that we allotted for this panel. I ask anyone who wishes to answer that question to indicate to me that they wish to do so.

I see that all of you wish to respond. We will start with Tracy Black.

Tracy Black: We should just step back a little bit and recognise what has been achieved by the banking sector in a period of eight weeks. These are all companies with tens of thousands of employees that have had to completely transform their working conditions. If we take a step back, we can see that the response has been quite incredible. Tens of thousands of people are home working and the companies are having to interpret the rules and guidance from Government and turn all of that into an application process. Of course, some will have different and better resources to do that than others.

Overall, the banks have been doing a good job. Every week, I ask members to come to me if they have any issues or things that they want to flag. Susan Love will have better examples of that than I do, but I have not been getting many issues coming through. I have had literally one or two issues raised with me, and I have been able to take them to the bank immediately and they have been dealt with effectively.

We have to consider the whole situation and acknowledge what has been achieved in a short period of time.

Other agencies are involved as well, and there are, of course, the grants. However, we are hearing that the situation across local authorities is varied. The key issue that everyone raises is that of speed and simplicity. The grants, such as those from the pivotal enterprise resilience fund, are hugely welcome and critically important, but we have been told that the process of applying for a grant can be a bit bureaucratic. We are being told that the procedures should continually be improved as the feedback from customers comes in.

Susan Love: In the earlier days of the crisis, when CBILS was launched, expectations were perhaps not managed quite as well as they might have been. There was a mass rush of applications by small businesses to banks and, as Tracy Black said, the banks were dealing with their own issues around trying to get those schemes up and running in a short timescale.

We have heard that, at that point, when small businesses tried to apply to CBILS, they were first presented with the bank's own loan offerings, on the bank's terms. An expectation issue arose in that regard, and there were issues around the information that businesses were being asked for and the guarantees, as has been mentioned.

We must thank Scottish Financial Enterprise for the help that it provided as we tried to triage some of those cases. When problematic cases came to us, SFE helped us to work with the individual banks to get the right solution for those customers. I must say that, in most cases that were brought to us, the banks were quite responsive to what customers needed. However, as I mentioned earlier, in the first few weeks of the operation of CBILS, we could see that it was not doing quite what we thought it would with regard to addressing the type of finance that the smallest businesses needed. The bounceback loan scheme has been much better in that respect—it has worked much faster and the money is starting to reach businesses. We are still dealing with some problems with applications, but we continue to work with SFE and RBS, in particular, to process those. Things are on more of an even keel than they were in the early days.

Liz Cameron: I echo what Susan Love has said—that is exactly the experience across the Scottish Chambers of Commerce network. We have put in place a system of weekly calls whereby, if any business is having issues with any bank, we can take those issues up directly with the bank and raise them with SFE.

The situation is the result of a policy statement being announced and then being interpreted by the banks, which, at the end of the day, are commercial enterprises. I do not believe that the banks' interpretation of their commercial offerings in the early days was quite what the UK Government had in mind when it launched CBILS.

11:00

The bounceback loan scheme has been good, and some people are utilising it to pay off their CIBLS loan, because the conditions and interest rate are more favourable. Some banks are maybe not supporting that wholly, but the Government has said that the loans can be used for that purpose, and we have promoted to businesses utilising the scheme in that way.

It would be good if we could see Scottish statistics on the value and the number of businesses that have been supported by both interventions. I have not been able to get access to that information. I have UK data but, for some reason, there seems to be a difficulty and a challenge in getting Scottish data for those programmes. It would be good to see how Scottish businesses are benefiting from both interventions.

Overall, after getting a handle on things, the banks have done a pretty good job in taking forward the loans, albeit that some of them are still a little slow in processing applications.

Richard Lyle: Susan Love said that some people's applications are not being processed very quickly. The reason for that surprised me. Some businesses in my area have not applied for the small business bonus, which is why their applications are not being passed quickly. Did that surprise you?

The Convener: Is that a yes or no question?

Richard Lyle: Just a quick yes or no would be fine.

Susan Love: Yes. We were surprised by the number of small businesses that were still unaware that they could have applied to the small business bonus scheme, but we were not surprised that there might have been subsequent glitches in moving from that to getting a grant.

Richard Lyle: Yes. That scheme has been in place for 10 years. Thank you.

The Convener: That completes members' questions. The session has been a good one in which we have received a lot of information. I apologise to viewers who do not know all the acronyms; I am afraid that we all fall into the habit of using them.

I thank Tracy Black, Susan Love and Liz Cameron for their contributions, which have been

very helpful. Given the timeframe, there may have been issues that we have not managed to cover, but I am sure that the committee will write to you if we want any further clarifications. You are, of course, free to write to us with any information that you would like us to have. I see that Liz Cameron has put a thumb up for us in the chat column.

We will have a brief suspension while the panels swap over. If the witnesses want to listen to the second half of the meeting, they are very welcome to do so.

11:02

Meeting suspended.

11:05

On resuming—

The Convener: Thank you, and welcome back to the Economy, Energy and Fair Work Committee. I am pleased to welcome our second panel of witnesses. We have Mairi Spowage, deputy director, Fraser of Allander institute; Matt Lancashire, deputy chief executive, Scottish Council for Development and Industry; and Helen Martin, assistant general secretary, Scottish Trades Union Congress.

I remind our new witnesses that I will invite you to respond when a member directs a question at a specific witness, but I will give all the witnesses a chance to speak. Broadcasting will operate your microphones, so just pause before you speak to make sure that your microphone is on before you start speaking.

Gordon MacDonald will ask the first question.

Gordon MacDonald: Have the various packages and support schemes that have been put in place by both Governments been sufficient to support businesses, their employees, and self-employed people? In answering, could you highlight gaps in the sectors and regions in Scotland? Can we hear from Matt, then Helen, then Mairi?

Matt Lancashire (Scottish Council for Development and Industry): The majority of SCDI members are thankful to the Governments for the various support schemes, grants and business loans that have been put in place to support, maintain and stabilise a range of industries and sectors.

There are challenges in implementation of the business loans, grants and other aspects of business support funding for employees as well as for businesses themselves, with many still reporting that the loans and grants are not physically coming through, so there is a dearth of cash liquidity in some businesses. Approximately

51 per cent of our businesses are reporting that they are three months away from closing their doors, and up to 80-odd per cent report that they will do so within six to 12 months. Cash liquidity is absolutely crucial.

Some solutions rely on structural implementation of the business support loans and grants. For example, local authorities must shell out a lot of cash in response to applications, so support is needed to review applications, which requires the local authority to have a lot of capacity and capability as well as digital know-how. We are asking an awful lot of local authorities in asking them to translate that quickly into support going to businesses.

The same goes for the banks. I was listening to the earlier part of the meeting: one of the major issues for the banks is their capacity and capability to get loans out quickly and correctly to the people who need them. Their not having that knowledge and capability is stalling business liquidity. However, in the main, our members are very supportive of the grants, loans and processes that have been put in place.

Helen Martin (Scottish Trades Union Congress): The schemes have been essential for supporting people's incomes. We heard in the earlier part of the meeting that the coronavirus job retention scheme has saved thousands of jobs across the economy: we agree that it has. The job retention scheme and the self-employment income support scheme will be absolutely vital to ensuring that we weather the storm, and that people's incomes are maintained.

To begin with, there were quite a few gaps in the schemes, but the issues have, for the most part, been worked through for the majority of our members. There were issues about when people would start to qualify—people who had just changed jobs, for example, were falling through a gap. There were questions about whether the job retention scheme applied to people who work under umbrella schemes, but it was clarified that they could apply for that scheme. There were issues for people who were self-employed and people who were moving between self-employment and employment.

Some issues are still unresolved. For example, there continue to be issues about support for self-employed workers who pay themselves by dividend. Among our members, businesses are often set up like that at the behest of the sector—it is a business model that is deployed in some sectors. The worker might not have had major objections to that approach, but might also not have had a lot of choice about whether to set up their income stream in that way. Therefore, there is a difficulty in that people are being left without an income because of such choices.

We would like more scrutiny of such business models and, perhaps, a move towards regulating employment a bit more carefully. We would like to ensure that people genuinely have employment contracts and that their status is clearly defined, so that when the worst happens, they can access Government support. Many of those people work in the creative industries or in the oil and gas and construction sectors. They were genuinely working and contributing and should therefore be supported as other people are being supported.

Mairi Spowage (Fraser of Allander Institute): The support packages have been unprecedented—certainly, in the UK context. As the crisis has unfolded, the policy measures have evolved to cover more and more parts of the workforce and the business base.

I agree with Helen Martin that gaps still exist. She mentioned people who pay themselves by dividend, which has usually been done at the behest of the sector in which they work. There is an interesting question about what might happen to such ways of employing people, because the people involved have been left without support from any of the schemes. We can see that in the skyrocketing number of universal credit applications in recent weeks. Clearly, many people feel that they need to apply for universal credit to make up for lost or severely reduced income.

We were also concerned about gaps in delivery of the schemes; Matt Lancashire referred to the capacity of local government to deliver the grants. We were concerned about that, given that many local government organisations have been cut in recent years, and might therefore have had difficulty in implementing schemes. However, we have been hearing that, on the whole, local authorities have been doing well in delivering the grants, although the situation varies quite a lot across the country. Because there are different local government bodies delivering grants, we can get differences in outcomes for businesses.

We have been hearing that there might be a bit of a gap in relation to the third sector. Many third sector organisations that are in receipt of charitable relief are also eligible for business grants, but only if they are small or in the retail or hospitality sectors. There are potential issues there. Funds are available, such as the third sector resilience fund, but we have been hearing that some third sector organisations that are well run and have decent reserves are not getting any support through that. Our worry is about what might happen in six to 12 months, when communities are opening up again. Such organisations will be key to restoring normal life in the community. We are worried about the outlook for third sector organisations that are not getting any support through the schemes.

The Convener: I see that Matthew Lancashire is keen to come back in, so I will let him in, if he is quick.

11:15

Matt Lancashire: I will be quick. I suppose—[*Temporary loss of sound.*]—but organisations in larger sectors are also in need of support. In Scotland, an acute issue is the level of funding that is available to support our university and college sector through this time—especially given that many of the skills and opportunities through research and development in colleges and universities will lead us out of the crisis and are critical to our future success.

The Convener: Absolutely.

Gordon MacDonald: I have one very quick question, then we can move on. What will be the long-term impact on Scotland's businesses, after the pandemic? If there is to be a new normal, what changes should be made to the economy?

Mairi Spowage: That is a really good question that we have been grappling with as we analyse what might happen in the long term as a result of the crisis. It is likely that the businesses that will be shut longest through this period are in the hospitality and social spending sectors; it is possible that they might not be able to open for the rest of this year.

We also see from public attitude data that even if those businesses were to open, people might be very wary about going out and spending money in them; the majority of the public might be very concerned about going to restaurants and bars in the next few months. Direct measures are being implemented now in respect of certain businesses closing, but there is an indirect feeling that it is not safe to go out and to be in social spaces, so those businesses might be most impacted.

There is an interesting question about how support can be targeted at sectors that might have to close for longer, and in which more severe social distancing measures will have to be in place for longer, which might make some businesses unviable. A key question is whether businesses will be able to survive through what would have been their peak period, through the winter and then into next year, until their more normal business model can—all being well—be restored. Many such businesses are small and do not have large cash reserves, so there is concern that many will disappear during the crisis.

One issue is that such businesses are particularly dominant in, and make up a large part of the economy of, rural areas. In the previous part of the meeting, Susan Love said that many businesses are touched by tourism and hospitality

spending, so there could be an impact not only on the local economies but on the communities, which are already dealing with challenges such as the ageing population and people moving to more urban areas.

The Convener: We are clearly facing significant problems. Can business restructure? How will the STUC help with that restructuring?

Helen Martin: Businesses can, and will probably need to, restructure. The STUC's view is that the restructuring should be negotiated with the workforce and with recognised trade unions. It is absolutely clear that workers and employers have a shared interest in ensuring that workplaces survive and that jobs and incomes are maintained.

Mairi Spowage talked very well about the idea that some sectors—hospitality is a clear example—will need different levels of support. It is important that support reaches into the workforce, so that people's jobs and relationships with their employers are maintained. It is also important that employers are supported in providing the support that they need to give to a shielded workforce, because such support might need to be maintained for a very long time. There are questions about how self-isolation will be supported, too.

There are big challenges in how businesses and the workforce deal with the crisis in the short to medium term. It is about negotiation, building confidence, finding solutions that work for the business and the workforce and a sense of fairness existing within the system.

In the longer term, we must ask serious questions about our safety net. It is quite striking that universal credit has proved to be inappropriate for the vast majority of people to rely on during the crisis, hence the job retention and income support schemes that have been put in place. I would like to see a national conversation about how we link unemployment support more closely to earnings, as is done in other European countries. That is something that could help to support people through this crisis, too.

The Convener: Would anyone like to comment on how we will restructure and create sustainability after the crisis?

Matt Lancashire: It will be possible to do that. Obviously, there are a lot of negative figures out there at the moment, such as the reduction of 30 per cent in gross domestic product. The dreaded word "unprecedented" is used in that context.

We must consider what Scotland is traditionally good at, and we must think about the sectors that are suffering and need bolstering right now. For example, the oil and gas sector in the north-east is struggling because of the global oil price and

current lack of demand for oil. We need to think about how we can regenerate the north-east and the oil and gas sector, and support it through the crisis in a way that keeps the people with the skills, talent and knowledge employed in the north-east, so that we can look towards a green recovery and the low-carbon transition. It is possible for us to become a global leader in that industry, and the chance exists for us to do so in the transition period up to 2045. However, we will not do that unless we support the sector and retain the knowledge that exists in it right now.

Construction is another area that massively impacts on the Scottish economy and GDP. We need to think about the projects that will support social purposes, the economy and sustainable growth. Where should we invest the money that we will have in the future, in the short term and long term? That investment must work to support those three strands.

On aviation, at the moment there are 90 per cent fewer airport passengers than normal. How do we create the international links that can support trade bubbles and get a company exporting again? What can we learn from other countries about how they go about business? What will the impact of the situation be on our international competitiveness? Those questions are crucial. This is not a time to be insular; it is a time to look beyond our borders and to learn from what others are doing, and to think about how we can compete with them.

On the tourism, hospitality and retail sectors, we have lost a lot of opportunities this year. For example, COP 26—the 26th session of the United Nations' conference of the parties to the Convention on Biological Diversity—is not going to happen. That would have been a time when the world's eyes were on us; we would have had a great chance to showcase Scotland and to talk about who we are and what our values are. That would have driven investment into the country. It is critical that we send the message that we can still hold such events and that we are leading the world on some of the issues. Our voice needs to be heard.

From a regional perspective, particularly with regard to the rural economy, which has been touched on, there are real challenges in relation to the hospitality and tourism sector. However, the issue does not concern only those industries; ensuring that people continue to come to rural areas and that the rural economy continues to churn is critical to a host of industries. A rural economy strategy for Scotland would probably be a positive step. If we could take that forward, it would help to balance the economic needs of rural and urban areas.

The Convener: Obviously, the creation of South of Scotland Enterprise in the area that I represent is a good example of a means by which we can provide the focus that you are talking about.

Matt Lancashire: Correct.

Andy Wightman: The Scottish Government, local government, local businesses, national businesses and workers will have to work together to get us through this crisis. Can the panellists give us an indication of whether the working groups that have been set up sector by sector are structured appropriately? In particular, do they pay adequate attention to regional variation, which Mark Lancashire has just talked about? Do they recognise the fact that the supply chains can cut across many sectors, and that one small component in a supply chain can be critically important to the success of a business in another sector?

Mairi Spowage: That is a good question. The focus on sectors can be quite difficult, given that a number of businesses will operate in a number of different settings. From a business's point of view, if it has a manufacturing line as well as a warehouse and transport to think about, it does not matter how the business is classified as a sector; it is more about how it will adapt its business operations to comply with the new guidance.

I can see that it might be easier for businesses to look at it in the way that the UK Government has; its guidance covers workplace settings, including how businesses should deal with transport and what people should do if they work outside or in a lab. It seems more practical to think of it from that point of view, given that that is what businesses are really going to have to worry about, and that is how they will be able to assure their employees that they will be safe if they return to work.

However, it is early days for the groups and the Scottish Government has indicated that it will not diverge from UK Government guidance without good reason and evidence for doing so. Therefore, we have to see what the different working groups come up with. So far, I have not seen any evidence that they are thinking about regional variations, but I would be surprised if they were not.

My understanding is that there are a number of different groups that could touch on cultural and tourism issues, so I am not quite sure how that is going to work, given the range of businesses that are involved in tourism and hospitality spending.

I guess my answer is that I am not sure yet. We will have to wait and see what the groups come up with.

Matt Lancashire: The working groups are a very welcome way of trying to support a safe way of returning to work and getting sectors up and running. That is about the safety both of individuals who are working and, in the case of businesses that are customer and supply-chains facing, of customers and supply chains. It is extremely important that we get it right.

The representation on the groups needs to cut across different fields. There is a lot of glue that binds sectors together, not least transport. Probably the most critical thing to get right is how people get to and come home from work and how goods, services and people move.

I see that many of our members want to find innovative ways of working that can support social distancing. If people need to return to a workplace, there is a thirst to make innovations in relation to desks, and tea-break and kitchen facilities, and to get it right on construction sites and oil rigs, and to share that knowledge widely.

I wonder how far afield we are looking, as we are not the only nation that is going through this. I make a plea for us to look at what is happening in Italy, Spain, France, Denmark, Sweden and other comparative societies and to find out how similar sectors are moving back to work. Having that international understanding and outward look is critical.

Perhaps the groups could give us some ideas that we might not have at the moment. I am unsure how that will be achieved on the working groups but, in the main, our members welcome the groups and think that it is critical that they move at pace in a way that saves lives and supports people.

Helen Martin: There is a lot of confusion about what is actually being done. I listened to the previous panel of business organisations. The point about the UK guidance and the Scottish guidance came up a number of times, and the perspectives did not seem to fit with the work that is actually happening. It is true that the UK has written a series of pieces of guidance that are based on the workplace setting, but it is also true that a business that works in lots of different settings has to read lots of different bits of guidance.

11:30

However it is cut, that will invariably be the case. Whether it is done by sector, setting or sub-sector, you end up looking at layers of guidance, looking at different guidance for different elements of work and having to think about transport, what the warehouse does and what home workers do. There is no easy way to define everything that a business does and everything that it might need to

go through to make itself safe, so I think that whether a piece of guidance is called, for example, construction guidance or outside working guidance is a fairly academic argument. Ultimately, there will be many more different practices for a construction workforce than for a gardener, and at some point the guidance will have to tease those elements out. It is important to note that the UK guidance makes a clear statement that businesses that are based in Scotland should look to the Scottish Government for guidance because public health issues are devolved.

It is true that the Scottish Government is developing some overarching sectoral guidance, but there will be further sub-sector guidance beneath that—for example, in manufacturing there is overarching guidance, but there is also detailed guidance for takeaways versus other sorts of food processing businesses because there are vast differences within those types of businesses. There is not just one simple checklist that allows a business to prepare for this; there is a lot of detailed work going on to support businesses and give them a sense of what they need to do in their specific setting.

All the guidance is based on a similar premise of risk assessment, social distancing and hygiene. The premise is a risk assessment that is agreed with the workforce, as the Health and Safety at Work etc Act 1974 demands. High levels of hygiene and social distancing are not optional. The key point in Scotland is to realise that the legislative basis is different in Scotland and that social distancing is enshrined in law and therefore enforceable by the police and environment health officers. Once you have realised that, you start to understand why there might be some level of divergence between Scotland and the UK in the guidance. The strengthening of that point leads the guidance in a certain direction there. The confusion is sometimes overstated because, ultimately, businesses will have to work out what it is that they do and start to apply the guidance—that will always be a challenge, no matter how the guidance is drafted. It is hard to make it applicable in any possible scenario without changing the premise.

The Convener: It certainly is a challenge when it comes to whether businesses can afford to implement it and whether it reduces their income to a level at which they are no longer viable.

Colin Beattie: Undoubtedly, the economy will face some challenges. Do the witnesses think that Scotland's business support agencies—I am particularly thinking of local authorities and skills and enterprise agencies—are equipped to deal with the scale of the economic challenges that they will face?

Matt Lancashire: It all flows from whether organisations are equipped for the future recovery. There is obviously a lot of talent and capability in all those local authorities, schools and enterprise agencies, as we discussed.

A lot will depend on what our recovery strategy is and whether, as we come out of the Covid-19 crisis, we have the same economic strategy that we had when we went into it. That will surely dictate what type of skills support and what type of enterprise support we will need. If we stick to our guns on our net zero ambition, our desire to have a circular economy, a green recovery and sustainable economic growth that is built on clean growth, and our goal of becoming a leading nation when it comes to artificial intelligence and data, I think that there is a lot of knowledge and capability within the agencies to support us in having such a strategy. The issue is the fiscal package that underpins all that and whether it enables us to create or seize those opportunities for businesses in Scotland. That will be critical to the success of the strategy.

Along with the colleges, the universities play a significant role with respect to the skills that we will need in future in the industries and sectors that I have mentioned. When it comes to the universities, from a research and development perspective, as I have said, a lot depends on how quickly we better commercialise the great inventions that are made in Scotland.

A range of factors are involved, but much will depend on the fiscal package. We were delighted that, in the midst of the pandemic, South of Scotland Enterprise was launched in earnest, because we believe that it can have a tremendous impact in the region, especially given the role of the Borderlands deal in supporting wider economic and social prosperity in the region.

The shape that the strategy takes will dictate whether the agencies and local authorities have the right support and the right fiscal package to deal with whatever they might be faced with.

The Convener: Mairi, do you have anything to add? Please do so only if it is important, given the time.

Mairi Spowage: Yes. As I have mentioned, one issue is the fact that, coming into the crisis, local authorities had been squeezed so much that many of their non-statutory functions were feeling the brunt of the cuts, which was a source of concern for investment in local economic development. In the short term, many people have been redeployed to deal with business grants, in order to get them out the door. However, it is important to consider what we need to invest in local economic development as we come out of the

crisis to ensure that local government can properly support businesses to recover in their local areas.

The Convener: Colin, do you want to ask a follow-up question?

Colin Beattie: Given the time, I do not.

The Convener: Thank you. In that case, we will move on to Rhoda Grant.

Rhoda Grant: We have discussed those businesses that are impacted more than most. I want to move on to discuss the sections of our community that will be impacted the most. I am thinking of young people, women, people from deprived areas and lower-skilled people, who will be heavily impacted in getting back to work in terms of the jobs that will be there for them to do. What assistance should be available to help people to get back to work? Perhaps Helen Martin could address that.

Helen Martin: It is important to think about the types of workers who are really losing out in the crisis. It is clear that the impact is not evenly spread throughout the community. In such situations, lower-paid, lower-skilled workers often bear the brunt of the impact. We are very concerned about the treatment of young workers, in particular.

Tracy Black talked about the vulnerability of apprenticeships. When budgets are tight, employers often see training and support for people entering the workforce as luxuries rather than as schemes that should be maintained. In the current situation it might be important to redeploy Government support packages that have worked well in the past, such as adopt an apprentice and those providing maintenance for such schemes.

It will also be important to consider the gendered aspect of the situation. One area that this crisis has highlighted is the systematic undervaluing of female labour. That can be seen in the social care sector, in which even people in highly skilled jobs are paid at low rates—often at the minimum wage or the living wage if they are lucky. That is replicated in other sectors, such as retail and hospitality. It is time to take a good look at our rates of pay in those sectors of our economy and to consider how we might rebuild them in a better and fairer way so that people can be properly recompensed for the roles that they carry out.

Of course, that will be challenging in the current crisis. However, it would also present us with an opportunity to consider how work is structured and income is shared. It is not appropriate that highly skilled jobs are protected and maintained but lower-skilled ones suffer. I again mention the safety net that should exist and how we might

ensure that people who find themselves out of work are adequately supported.

The Convener: Rhoda, would you like to put that question to anyone else, or do you have any supplementaries?

Rhoda Grant: I do not think so, unless anyone could give us more insight into how we could help them. However, given the time, that is fine.

The Convener: Both of our other witnesses have requested to come in, which I will allow if their points are succinct. Perhaps Mairi Spowage would do so first.

Mairi Spowage: I echo Helen Martin's points. Many of the workers who are being impacted by mothballing are young people, especially women. There has also been a particular impact on rural areas, which is likely to exacerbate existing inequalities. When we consider how we might go back to work, we can see that further issues could arise then if children are not yet back at school. All those issues are more likely to affect women than men, so there will be a lot of gendered aspects to consider as we recover. As Helen Martin said, many of those could exacerbate existing inequalities in our society.

The Convener: Absolutely. Matt Lancashire wants to come in, too.

Matt Lancashire: Yes, very briefly. I say to Rhoda Grant that much will also depend on the form of social contract with people that might exist after the recovery. For example, we will have to consider the forms of social housing that should exist in the future and how we should invest in them. How might we create the citizens basic income that has been discussed? In the future, what form of social contract will underpin people at the margins of the workforce or those who are on very low pay? How should we protect them from a similar event in the future? It will be so important to get that social contract right.

The Convener: We will move on to hear from Alison Harris.

Alison Harris: I ask panel members to say, very briefly, whether lessons learned from previous economic downturns have made us more or less resilient to a crisis such as the present one.

The Convener: We will go to Mairi Spowage first, because the Fraser of Allander institute has clearly done a lot of work on the previous downturn.

Mairi Spowage: It is difficult to compare the two events, because the current situation is not like the previous financial crisis. Significant sectors of our economy have been shut down and stopped in order to deal with the current public health emergency. The policy response might become

more like the response to the previous financial crisis once we are able to open up the economy again and consider measures that we might want to put in place for restoring consumer confidence and stimulating demand.

However, we must recognise that a lot of people will have less appetite for risk and therefore will be more likely to hold on to their money, or might just have less income if they have lost their jobs or have had their hours reduced. As we move into the next phase of our response, we will have to consider the measures that we put in place during the previous financial crisis to restore consumer confidence, get credit moving and get people spending again.

11:45

On whether the previous financial crisis made us more or less resilient, we kept a lot of employment during it. Unemployment did not get as high as some people might have expected. However, many of the jobs that have been created in the 10 years since then have been low paid and insecure. As Helen Martin and Matt Lancashire touched on, we need to think about whether those forms of employment are what we want in our labour market. It will become less attractive for workers to put themselves in a position—if they have the choice—in which they are likely either to lose their jobs fairly easily or to be at risk of a reduction in income. There are lessons about the sorts of employment that have been created, in the main, since the financial crisis, and whether that is the sort of society and economy that we want.

Helen Martin: It is important to reflect that we are not as resilient as we were when we went into the 2008 crisis. At a household level, people have been scarred by the impact of that crisis. Earnings are still below what they would have been if the crisis not happened, which has had an impact on how much spare cash people have had lying around.

Mairi Spowage has explained well the rise in precarious work that we have seen over the period, and the fact that in-work poverty has grown and is now a big driver of poverty in the country. I have already talked about the fact that universal credit has driven a lot of poverty, and, as the current crisis has continued, has been shown not to be fit for purpose. We definitely need to look at that.

On wider resilience, it is clear that investment in pandemic preparations was perhaps not undertaken to the level that it should have been, because of the impact of austerity. We have also seen the impact of austerity on local authorities, which has meant that they have been less able to

support grants and businesses through this time than they should have been.

The idea that we are now potentially entering another round of recession, with really high levels of unemployment and falling wages, is very difficult for workers to accept, given that we are only at the tail end of the previous recession. We are going to have to think really carefully about how the burden is shared, and I am not sure that we can pursue the kind of austerity model that we did before, given the pain and suffering that that caused over the past 10 years.

The Convener: Matt Lancashire, do you have anything pertinent to add to that?

Matt Lancashire: Yes. Before the crisis happened, we had very low productivity across Scotland and the UK. One of the key outs for the recovery is to increase productivity as much as possible. If, in a year's time, it takes us four days to make something that used to take five, that will be a real plus for Scotland. Increasing productivity would start to build the resilience of many businesses, both public and private, which would help if anything similar to the current crisis ever happened again. I am talking about a national drive on productivity. Some aspects of that are being supported by the great work of Productivity Club Scotland, which is an initiative led by SCDI.

Over the past few weeks, a weakness has been uncovered in our supply chains, particularly in respect of PPE and other areas. We need support for manufacturing opportunities in Scotland and a resilient and robust supply chain.

My last point concerns the capacity of our public services. Over the past few weeks and months, we have asked so much of our public services from the social care, business support and societal perspectives. Those services need investment to enable them to properly be the cement or glue in society that they are and always aim to be. They need more support to be able to achieve what we wish them to achieve.

Willie Coffey: I will ask the same question as I asked the previous panel, which is about post-lockdown financial support and debt management. I assume that the panel members agree that we cannot just stop financial support when the lockdown ends. Are you aware of any forecasting going on to estimate the cost and extent of the support that will be required? Ultimately, how are we going to pay for it all? Are we facing higher taxes or more borrowing at UK level to help us to pay for it? I would like to get a flavour from the panel of their thoughts on those issues.

Helen Martin: I will let Mairi Spowage talk about the forecasting elements. I absolutely agree with the idea that the support cannot simply stop. One of the key things that will support us through this

crisis is thinking about how support continues, how that can be done appropriately and the challenges that will need to be dealt with.

Lockdown has been really hard and costly. It has been hard in personal terms and in business terms, but it has been necessary in order to control the spread of the virus. If we do not get the approach right in the coming period, we are likely to see spikes in the virus and we could end up back in lockdown, which would be the most economically challenging position of all. Therefore, although it is important to think about how we deal with the burden of debt in the longer term, we also have to think about how we can correctly meet the challenges of maintaining a smooth transition out of lockdown and into recovery. It is therefore important to think about how the job retention scheme can become more flexible, so that people can work some of the time and be furloughed part of the time to maintain their incomes. We also need to take into account the fact that businesses might have to bring people back to work slowly because of social distancing measures.

It is important to think about how we maintain the incomes of people who cannot work. We need to think about support for self-isolation, because people might have to self-isolate two, three, four or five times during the crisis, particularly once we get into the winter months and other viruses are circulating—it might be hard for people to know whether they have the coronavirus or just a cough or the flu or whatever. It is absolutely essential that people's incomes are supported in periods of self-isolation. Statutory sick pay has been shown to be quite low and is therefore a disincentive to self-isolation, so its role will need to be thought about.

If we do not get those things right, we will not get our economic recovery right, because we will not control the virus correctly if people are disincentivised from following the public health rules.

Matt Lancashire: I will try to be as brief as possible.

Helen Martin is absolutely right that support cannot end, because it is vital and is needed by many businesses to keep them up and running. However, over time, business support will need to transition. We need to consider how we reward businesses for taking risks so that they grow and start the economy ticking again. We need to create incentives by providing grants or loans on the basis of the business growth potential and opportunities of the particular business.

The debt will be absolutely humongous and significant—I am sure that Mairi Spowage will give us more information on that in a second. The only way to get out of that is by growing our way out of it. SCDI members and I believe that business

support should start to reward risk in order to create new opportunities, products, services and manufacturing ideas that create jobs. If we create jobs, the tax take goes up, which can start to pay back some of the debt that we will have accumulated throughout the process. That is critical.

The industrial strategy that has been led by the UK Government has been supportive of innovations across the UK, including in Scotland. We need to continue, if not double, that type of investment, so that we can start to get business growth going and support new ideas. Likewise, with the Scottish Government initiatives, it is about rewarding risk and picking winners. Those types of support will be critical to our success in the future and to paying the money back.

The Convener: Indeed. Mairi, will you give us your thoughts?

Mairi Spowage: I agree that the policy measures and particularly the job retention scheme will have to transition over time, as the chancellor has proposed. Additional flexibilities for things such as the job retention scheme are really important, because some businesses can open and operate at reduced capacity, and they need to get their staff back to work some of the time.

However, there are some sectors where that will still not be possible, even in the period that the chancellor has outlined. I am thinking in particular of hospitality businesses. Even with the timetable that the UK Government has set out, it is quite possible that those businesses will not be able to open during the transition period for the job retention scheme.

The key thing will be whether there is sector-specific support that goes on for longer because businesses are unable to open or whether things will apply across the economy. If it is clear that employers are going to have to pay a significant minority of people's wages even though they are still shut, I would worry that it might be a dangerous time for things such as further redundancies and people losing contact with their employers.

Looking to the future and the fiscal consequences of all of this, the numbers are eye watering. They are very large. They are much bigger than the deficit that we saw at the time of the financial crisis, and we already have the large legacy of debt from the financial crisis. There will be some difficult choices to make in the years to come, and we are likely to see acceptance of a higher level of indebtedness by many countries around the world as they deal with the legacy of the crisis.

I do not think that there is much appetite for further austerity in the model that has applied over

the past 10 years, particularly given the social costs that it seems to have generated, some of which Helen Martin touched on. Borrowing is quite cheap just now, but I think that the Government will be seeking to get its finances back on to a more sustainable path, which may lead to tax rises or a new look at the way that we structure tax in our economy. That is possible in order to get the books back in balance.

Dean Lockhart: You and the previous panellists have given us a very good summary of the various policy responses at the UK and Scottish Government levels. What would be your one or two top priority policy requests to the Scottish Government now that it has established the advisory group on economic recovery?

Matt Lancashire: I could probably add two zeros to the number of policy requests that you asked for. It is difficult to get it down to one or two. There is a real opportunity to support a clean growth revolution in the UK and Scotland over the next few years, and we need to focus all our policy intention on driving that forward. If we could nail that and be known to be the global leader on clean growth and the circular economy, that would be fantastic. Any innovation or funding levers that can help that transition to happen will be critical.

I talked about other challenges that have been identified through the UK industrial strategy, such as the ageing population and the AI and data revolution. That revolution is happening, but how do we advance and support it over the next few years?

12:00

The other aspect is that we need to get trading. Our economy is only as big as who we trade with. We need to open up international trading routes from Scotland as soon as possible. Whether that should be done through trading bubbles, I am not entirely sure—there are far more competent people than I that can direct that.

Whether it be for Scotch whisky, Scottish salmon or other produce, it is critically important that we get those trading routes open as quickly as possible. We need to be even quicker in relation to trading with the rest of the UK—60 per cent of Scottish exports go to England, so we need to ensure that the trade routes between the two countries are open.

Mairi Spowage: The Fraser of Allander institute does not advocate policy positions as such. The institute will be keen for the advisory group to do bold and innovative thinking. If we are going to think about how the Scottish Government can spend its budget to support economic recovery, it might be that we have to stop doing some things, make hard choices and set out priorities that we

think will support that recovery. It is really important that the advisory group does not produce high-level strategy documents about things that we already know that we want to achieve, such as an inclusive and green economy in Scotland. We need more practical policies that can deliver to support businesses.

The Convener: I am sure that Helen Martin will have a policy ask.

Helen Martin: Oh yes—we have many. It is important to think about just transition in all of this. We are concerned about the position of oil and gas. We recognise the climate change questions and the potential of the green economy, but we want jobs that are rooted in Scotland.

We also have an opportunity to think about our manufacturing base, so that we support more localised supply chains. We have to rebuild our manufacturing base in such a way as to defend high-quality jobs in Scotland and support the green agenda.

We need to think about the role of public services in supporting wider economic development. Local government has a key role to play, and that must be acknowledged. Universities also have a key role to play. That sector is under threat because of the crisis, so we need to defend it and the research and development that universities can do.

We need to deal with the challenges in social care. The social care model has been shown to be not fit for purpose in a range of ways. The sector will be under financial pressure because of changing demographics and the impact of coronavirus. It is important to think about the social care offer that we need to make, and how we rebuild confidence in the sector. We need to have a nationalised approach to social care, similar to the approach to the NHS.

Dean Lockhart: Thank you for those responses; they are very useful.

I have a brief follow-up question on the impact of the crisis on public finances. Before the crisis, the UK budget deficit was approximately 1 per cent, whereas the stand-alone fiscal deficit in Scotland was about 7 per cent of gross domestic product. Given the massive fiscal stimulus and financial support that the Treasury is issuing, has the Fraser of Allander, or others, done any modelling of how that financial stimulus will affect the levels of budget deficit in the UK and on the level of the Scottish budget deficit or fiscal deficit?

Mairi Spowage: I have seen estimates for the UK deficit, but the figure will, obviously, depend on how much money is, in the end, spent on measures such as the job retention scheme. There are uncertainties in the estimates, but the

deficit could be very large—something like 15 per cent.

It is difficult to say right now what the impact might be on the Scottish notional fiscal deficit, which is published in “Government Expenditure and Revenue Scotland”, for example. In the end, it will depend on how much money comes to Scotland for all the measures and therefore how much money is spent in Scotland, as well as how other bits of spending are cut up.

We will have to wait for the statistics to see what the impact might be on the Scottish notional deficit. We have not done any work on that yet, because it does not seem to be the right time to be doing that work.

The Convener: Does Matt Lancashire want to comment?

Matt Lancashire: No—I support what Mairi Spowage said; I have nothing to add to that.

The Convener: Does Dean Lockhart have anything else to add?

Dean Lockhart: No—that was very useful. Thank you very much.

The Convener: In that case, we will move on to a question from Richard Lyle.

Richard Lyle: In regard to the previous question, I am sure that most countries will face a financial hit over the next number of years and I am sure that we will all get out of it.

At the beginning of the crisis, a high number of constituents were emailing their MSPs, all saying that there was no social distancing at their work and asking MSPs to contact their respective employers. As we eventually move out of lockdown, what will the trade-offs be between health and economics? Will they be difficult to navigate?

Helen Martin: As far as we are concerned, there are no trade-offs between health and economics. Health and safety must be at the forefront of our agenda. If work cannot be conducted safely, it should not be conducted at all. That is the fundamental principle that our economy is—and continues to be—built on.

We are giving a clear message to employers that we expect them to put in place operations that are safe. That means applying social distancing and increased hygiene. It also means thinking about the systems approach, which includes considering how workers get to work. That is not a small point, because we need to think about how to run our buses and trains safely.

It is essential that we do such things safely, because no one's life is expendable in this crisis. We are clear that, if social distancing measures

need to be diverted from, PPE is required, that that PPE will need to reach a certain standard and that people will need to be trained on its use. The PPE also needs to be available, and it is not clear at present whether non-essential workplaces would have access to PPE.

We are trying to set out exactly what needs to happen in the sectoral guidance in Scotland, so that each sector can determine how to operate safely in its different workplaces. That means Covid-19-specific risk assessments and it means thinking about how people need to change their businesses.

The fundamental tenet continues to be the need for home working. Where that is working well, it should continue. It was good to hear some of the employers in the previous session acknowledging that that was the case. However, this is also about recognising that the workforce needs to feel confident. A workforce that feels that their safety is secondary to the economic results of the business will not keep presenting for work. If we are trying to get the economy functioning and bring back consumers and the public, it would be self-defeating to have a workforce feel that way.

We all have a shared interest in making sure that work is done safely. That might mean that support is needed from the state to help small businesses to adapt, for example. Trade unions are also considering how we can use our health and safety reps to support businesses that are not unionised—particularly small businesses—to put in place effective risk assessments. We are in discussion with Government about the contribution that we can make, because we have well-trained advisers who could support discussion between the workforce and the employer, which is a key tenet, too. It is also important to recognise the role of enforcement and some of the challenges that exist around that.

Matt Lancashire: It is quite simple: we must follow the science and medical direction on social distancing, and we must also save lives and livelihoods. It is important that public health comes first in any return to work or to the next normal—we can use that term if we do not like “the new normal”.

However, I do not think that health and economics can be considered in isolation from each other. People will return to work when they are convinced by Government and public bodies that it is safe to do so. However, they also want to know how they will return to work. It breeds confidence if people know the measures that an individual or work group can take to protect themselves and their family and loved ones. It is critical that the twofold plan covers the when and the how, and it needs to be shared to allow people

to invest and trust in it, so that they begin to think that there is a way through the crisis.

Home working has worked tremendously well. We should remember that a lot of people are juggling their family and work lives, and it looks as though schools might not be back until September. People are struggling, and kids' education is suffering because of that. People's mental health is beginning to suffer as a result of being confined at home and missing out on the social aspects of being in a workforce in an office, a building site, an oil rig, or as a retail worker. How do we reach that twofold plan in which the priority is public health and the health of the workforce and families, while presenting something that the public can trust and that is supported by scientific and medical opinion about a return to the next normal?

Mairi Spowage: I do not really see there being a trade-off. The measures that have been put in place to shut down the economy and the support measures that were put in place by the UK and Scottish Governments are an investment in the health of our people and, therefore, our economy. That had to be done to ensure that our economy is able to come out of the other side of the crisis and can function as well as can be hoped and is possible.

When we come out of the shutdown, we need to think about the risks of further spread of the virus and about the economic damage that would come if there was another shutdown. It is probably sensible to err on the side of caution for people's health and for our economic prospects, as we recover in the best way that we possibly can from the virus.

When we ask people to return to work, we need to deal with the individual and household barriers that exist in relation to childcare and how people get to work. Those issues need to be dealt with before people are asked to return to work because, otherwise, that will lead to those who cannot work from home taking on more risk than those who can work from home, such as us. Inevitably, that will affect people who are on the lowest pay.

Richard Lyle: I agree that people need to feel safe, and the crisis has shown us that we all need to change. I thank the witnesses for their comments. I remind everybody that the Treasury's money is Scottish taxpayers' money. It is coming back to Scotland; it is not a hand-out.

The Convener: There is nothing like a political statement for the end of the session.

Richard Lyle: Mr Lockhart made one.

12:15

The Convener: There are matters that we need to consider carefully, and I will give the witnesses the chance to pick up and comment on what I am about to say.

It is clear that we are facing a financial crisis and that the national debt will be significant. Many parts of our economy might not recover and many businesses might find it extremely difficult to weather the storm.

A lot of today's chat and commentary has been about what we could do differently and how we could make things better. However, the starting point has to be to ask what we can retain and what we can keep going, because without a base on which our economy can progress, doing things differently will not be easy.

Many businesses work across the UK and need combined support, but we will, without a doubt, be reliant on the decisions that the Government makes. Several witnesses have said that businesses need to be given the tools to work effectively—they need guidance so that they can make the right risk assessment for the business.

I refer viewers and members to my entry in the members' register of interests: I am the owner of a manufacturing business. We are good at making the right decisions for our businesses. We need good, broad guidance—with the facts in it—so that we can move forward. *[Interruption.]* I am sorry—my dog has just walked into the room.

Do any of the witness have anything to say at this point? As no one wishes to come in, I give a big thank you to Mairi Spowage, Matt Lancashire and Helen Martin for joining us in our virtual session. Our two quite long panel sessions have been useful. I thank members of the public who have watched the meeting—I hope that they have found it useful, too. As we continue our inquiry, we will very much be looking to ensure that businesses throughout Scotland are being supported.

That concludes the public part of the meeting. We now move into private session, as previously agreed.

12:17

Meeting continued in private until 12:57.

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Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

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