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4 July 2022

Dear Claire,

I welcome the Committee's report following its inquiry into Scotland's supply chain in the context of challenges such as the COVID-19 pandemic and the UK Government's decision to leave the European Union, as well as more recently Russia's invasion of Ukraine. The Committee's wide-ranging report, structured around the three themes of people, place and product, identifies issues in relation to, among other areas, transportation, labour and skills, construction and manufacturing, and public procurement. I set out the Scottish Government response to the report's conclusions below, noting that conclusions 2, 23 and 34 do not require a response from the Scottish Government.

However, I also wish to remind the Committee of a crucially important overarching point, namely that many of the difficulties faced by Scottish businesses are a direct result of the UK Government's decision to exit the EU, and the 'hard Brexit' manner of exit which it deliberately chose to adopt. In all areas where supply chains here interact with EU businesses and systems, including not only the movement of materials and finished goods but also labour and skills, the UK Government's approach has made it harder and more costly for our businesses to operate. The Scottish Government will continue to do what it can to help businesses cope with these new challenges, but we have always been clear that it would not be possible to mitigate completely the damage inflicted on Scotland's economy by Brexit and the UK Government's handling of it.

### HGV drivers

**Conclusion 1:** The Committee recognises the need for much more to be done to improve the attractiveness of jobs and careers in the transport and logistics sectors. It welcomes the Scottish Government's proposal in STPR2 to develop a strategy for improving rest and welfare facilities for HGV drivers in Scotland. However, the Scottish Government is asked to set out what other actions it is taking within its own responsibilities to seek to address such matters and what discussions it has had with the UK Government on these.

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**Scottish Government response:** Rest and welfare facilities are a key part of national and international road freight infrastructure, and provision of these to an appropriate standard is fundamental to ensuring safe, efficient and effective supply chains. Moreover, improved rest and welfare facilities can help retain experienced HGV drivers, widen the potential pool of new drivers, and improve diversity. The development of a strategy will consider the adequacy of the current offering and how improved working conditions for drivers could contribute to improving road safety and reducing crime. Our analysis and work will indicate which routes have gaps in provision and will develop a framework to address barriers hampering their development, consider issues of financial stability and develop adequate standards. We will then work with stakeholders and partners on how best to deliver these improvements.

Improving the attractiveness of a career in the road haulage industry and the diversity of the industry to enhance the potential driver pool are areas for government and industry to work in close partnership. Scottish Government Ministers and officials meet regularly with trade representatives to discuss these and other matters. In April, the Minister for Transport met with the Road Haulage Association (RHA) to discuss HGV driver vacancies. Transport Scotland officials have worked closely with the RHA and Logistics UK throughout the pandemic, and continue to discuss with them ways of working in partnership to make the industry a more compelling prospect for new and younger drivers. We will continue to work with industry to establish the level of need for drivers in Scotland.

Regulation of the UK logistics sector is reserved to the Westminster Government and Transport Scotland officials meet with the Department for Transport on a regular basis to discuss matters of interest, including the impacts of EU exit and COVID-19. The Scottish Government will continue to engage with the UK Government on whether its approach, for example, the introduction of driver bootcamps, has been successful in getting more drivers on the road.

The Scottish Government's continued investment in skills is part of our approach to ensuring a pipeline of workers for the sector. In the last financial year, up to the end of December 2021 assistance was provided for 1,101 logistics apprenticeship starts and overall there were 1,358 apprentices in training. Apprenticeship Levy payers can access up to £15,000 skills funding each year to develop their businesses through the Skills Development Scotland strand of the Flexible Workforce Development Fund.

## Migration

**Conclusion 3:** The Scottish Government is asked to set out what action it is taking to work with the UK Government to ensure greater flexibility around the occupational shortage list and temporary visas for certain sectors.

**Scottish Government response:** The Scottish Government appreciates that migration is not the sole solution to labour and skills shortages, however it has a key role to play. Population projections published by National Records of Scotland show that Scotland's population is now projected to fall. In contrast the population of England, Wales and Northern Ireland are all expected to increase over the same period. Scotland has distinct demographic challenges as a result of our history of out-migration.

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These population projections do not reflect the impact of the ending of freedom of movement so potentially underestimate the demographic challenges Scotland faces. The ending of freedom of movement is projected to result in a 3-5% reduction in our working age population. We therefore need to do all we can to attract and retain people who want to make Scotland their home.

We value the skills and contributions of all people who come and settle in Scotland. Inward migration enriches our society for the better and migrants make a net contribution to our economy, our public services and our public finances. However, the current UK immigration system is overly bureaucratic and costly for individuals and for employers. In the current constitutional context, responsibility for immigration rests with the UK Government. Clearly in an independent Scotland, Scottish Ministers, accountable to the people of Scotland, could ensure that any immigration system focused on meeting the needs of Scotland.

However, this is not currently the case and in spite of our efforts, the UK Government has consistently failed to consult, collaborate, or work constructively with the Devolved Governments on any changes pertaining to the immigration system. Given the absence of constructive engagement on migration issues, the Devolved Governments have committed to meeting regularly on a trilateral basis to discuss migration issues impacting on our economy, public services and our communities. We urge the UK Government to reintroduce regular quadrilateral ministerial meetings and engage in a meaningful way.

We are doing everything within our powers to ensure that the needs of businesses are met, but our actions must be supplemented by immediate changes to the immigration system in order to quickly access the labour and skills we need.

The Scottish Government considers the current UK immigration system is unresponsive to labour market requirements. Shortages have illustrated that the level of available skills and labour domestically is wholly insufficient to compensate for the loss of free movement. On 15 December 2021, the Migration Advisory Committee (MAC) published its Annual Report. The MAC was in agreement with our position that short-term temporary visas were unattractive to migrants themselves, were unlikely to generate the flows of workers required, and reduce employers' ability to plan. In addition, the report strengthened the Scottish Government proposal to establish a longer-term temporary route, stating that if the UK Government were to offer concessions, it would 'likely make more sense to establish a migration route with clear conditions attached and a transparent method to decide when specific industries or occupations would be eligible to use this'.

We call for the UK Government to immediately revisit its previously-proposed 12-month temporary worker route and extend this offer to 24 months. As previously designed, the route should continue to be unsponsored and thus open to all sectors. If this were combined with the ability to easily transfer onto other eligible visa routes while a migrant is in the UK, this could represent a useful option for workers to come to the UK and help mitigate shortages. Given the fact that the UK Government was able to urgently introduce the currently inadequate short-term sectoral visas, there should be nothing to prevent further changes that provide an appropriate and more attractive offering for individuals and businesses.

The system of identifying and incentivising recruitment for occupations in shortage should align with the essential labour needs of all four UK nations, recognising fundamental differences in the demographics and skill base of each and the way that devolved services

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are organised. The Shortage Occupation List (SOL) should create an easier pathway through the immigration system for roles that are in shortage in the UK, however in its current form the SOL cannot effectively deliver for Scotland's economy, public services and communities. We need a system that is responsive to real life skills shortages and that does not arbitrarily equate skill level with salary.

The SOL should include a wide range of skill levels, with a more streamlined and responsive process for adding and removing roles from the list. While there is a Scottish specific SOL the only posts on that list are chemical scientists in the nuclear industry and Gaelic teachers. The Scottish Government currently has no formal role in determining what occupations are in shortage in Scotland and Scottish Ministers cannot currently commission the Migration Advisory Committee to consider changes to the Scottish SOL. Scottish Ministers, accountable to the Scottish Parliament are best placed to decide how to accommodate Scotland's distinct labour market and communities. Therefore, we reiterate our ask for a formal role in commissioning and determining which occupations are in shortage in Scotland.

### Labour and skills

**Conclusion 4:** The Committee also calls on the UK Government to engage fully with the Scottish Government to consider how pragmatic, proportionate and achievable solutions can be identified and implemented to help ease the labour shortages in key sectors across Scotland.

**Scottish Government response:** We welcome this recommendation and hope that the UK Government will heed the Committee's call. Scottish Ministers have been making efforts to engage with the UK Government to consider these issues through the Economy Directors Forum and the Business and Industry Inter-Ministerial Group. On 14 June a joint letter from the Scottish, Northern Irish and Welsh Governments was sent to the UK Government Minister for Small Business, Consumers and Labour Markets, calling on the UK Government to commit to establishing a Joint Task Force on Labour Market shortages with the Scottish Government and other Devolved Administrations. This approach would enable constructive discussion around the measures required to tackle labour shortages, including those currently reserved to the UK Government.

**Conclusion 5:** Following the conclusion of the Committee's inquiry, the Scottish Government published its 10-year national strategy for economic transformation. The Committee notes the focus within that on growing Scotland's labour supply and addressing economic inactivity. The Scottish Government is asked to set out a clear delivery plan with milestones for progress on both counts.

**Scottish Government response:** Building on the commitment in the National Strategy for Economic Transformation (NSET) to systemically address Scotland's labour market inactivity challenges, this summer the Scottish Government is undertaking work to better understand the factors underpinning economic inactivity and barriers to participation across inactive cohorts. This will inform an assessment of the impact of existing government interventions to support these groups into work, the identification of any gaps in provision, and the value for money of any further measures for addressing the challenge.

The Scottish Government has committed to developing a Talent Attraction programme and a Migration Service for Scotland. Brought together, this will improve Scotland's ability to attract

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and recruit workers from outside of Scotland with the skills that our economy will need in the future, and support international workers in the migration and relocation process. An effective Talent Attraction programme and Migration Service takes the pressure away from the employer to provide relocation support, both initially and in the longer term, linking in with relevant experts and other services. As part of NSET, an Industry Advisory Group for Talent Attraction has been formed to share talent attraction expertise and identify locations in the rest of the UK to attract talent from.

**Conclusion 6:** The Committee notes the cluttered landscape of policy commitments, funding streams and other initiatives that are intended to ensure Scotland's workforce is equipped to make the transition to net zero. It has previously asked the Scottish Government to provide a clear roadmap for businesses, particularly smaller businesses, backed by practical support and non-loan-based funding to drive the necessary and sustained efforts needed to transition to net zero. The Committee calls on the Scottish Government to set out a clear roadmap for how it intends to ensure skills are developed, maintained and retained.

**Scottish Government response:** The Scottish Government is supporting organisations across Scotland transition to net zero and we will continue to work with the business community to identify and tackle the obstacles to sustainable growth both domestically and internationally. In line with this, we are working with stakeholders to develop guidance on Just Transition Planning for businesses, and bespoke advice and support for businesses - including specific support for SMEs - is also available through the enterprise agencies, Zero Waste Scotland, Business Gateway and the Scottish Environmental Protection Agency.

We are providing £100 million capital investment through the Green Jobs Fund, which will help businesses create green jobs through investment in equipment, premises, research and development. We are also supporting workers to engage in a just transition through the £100,000 we have provided to support just transition capacity within the trade union movement. This will provide dedicated worker engagement roles within the STUC to support just transition planning and delivery for workers. Together these actions can deliver good green jobs and support business growth as part of a just transition to net zero.

Offering support to businesses of all sizes is an essential part of achieving net zero. Through the Climate Emergency Skills Action Plan, we have committed to develop a Green Jobs Skills Hub that will raise awareness among employers and individuals of the need for behaviour change, and support them to take action to drive that change. It will also help develop the leadership and management skills that will be required for a net zero future. Additionally, the Hub will demonstrate and stimulate demand for the required skills through business service delivery; cascade intelligence into the skills system on the numbers and types of green jobs that will be needed over the next 25 years; and provide a consistent and collaborative approach to implementing skills change nationally across existing platforms and linking to wider initiatives.

**Conclusion 7:** The Committee calls on the Scottish Government to confirm that the work that is underway to review apprenticeships includes consideration of the concerns raised about the Apprenticeship Levy and the Flexible Workforce Development Fund. The Scottish Government is also asked to confirm the expected timescale for completion of this work.

**Scottish Government response:** We have long shared the Committee's concerns about the Apprenticeship Levy. It was introduced by the UK Government without any prior

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consultation with the Scottish Government, despite the policy area being devolved. It is important to recognise this when considering the concerns raised around the operation of the Levy.

The UK Chancellor indicated in his Spring Statement on 23 March that the UK Government will consider whether further intervention is needed to encourage employers to offer the high-quality employee training the UK needs. This will include examining whether the current tax system – including the operation of the Apprenticeship Levy – is doing enough to incentivise businesses to invest in the right kinds of training. The outcome of this review will potentially have an impact in Scotland. We currently receive a population share of the Levy receipts through the Scottish Government block grant, which continues to be invested in wider skills, training and employability to meet the needs of employers, the workforce and Scotland's economy. At this stage we have no information on how the Levy will be reviewed or whether there will be an opportunity for Devolved Administrations to be involved. We intend to write to the Chancellor seeking further information and involvement in the review.

The Scottish Government is committed to reviewing and adapting the apprenticeship system as part of our approach to continuous improvement, as well as continuing to work with partners to ensure apprenticeship frameworks meet the emerging skills needs of industry and our economy. Our focus is on ensuring that any developments and adaptations focus on optimising the system, both for employers and for apprentices themselves. This includes improving gender and equality outcomes, ensuring that we meet our net zero commitments, and addressing any barriers to SMEs and start-ups taking on apprentices.

The Flexible Workforce Development Fund (FWDF) was introduced in 2017 to offer businesses access to training support for employees. In Year 4 (2020-2021), the fund was opened up to SMEs, which are now able to access training support of up to £5,000 per year via Scotland's colleges and the Open University in Scotland. As we gather evidence to develop and implement a lifetime skills offer to enable individuals to access skills development throughout their working lives, it is right that we review existing programmes.

As the Committee has noted, independent evaluations of Individual Training Accounts and the FWDF are underway. Given their concerns about the accessibility of FWDF for large, multi-site organisations, both the Scottish Retail Consortium and the Union of Shop, Distributive and Allied Workers were approached for input to the evaluation. Evidence gathering for the evaluation is now complete and the draft final report is expected to be received in late July, with publication of the final report expected by Autumn. The recommendations will be considered by Scottish Ministers in the context of any future FWDF delivery and will also make a significant contribution to the development of the lifetime skills offer committed to in NSET.

NSET recognises the need highlighted by the Committee to support and incentivise people and their employers to invest in skills and training throughout their working lives, and the commitment to a lifetime skills offer will help us achieve this aim. We are currently focusing on gathering the research and evidence necessary to set robust foundations for this offer to build on. We are clear that it must target more funding towards those living in or at risk of poverty and will be engaging with individuals in this group and grass roots organisations working with them.

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**Conclusion 8:** The Committee heard in evidence how important it is to have thorough, collaborative planning for future skills requirements to ensure the right skills are available to meet the needs of employers and that people can obtain transferable skills to help them transition to new roles to address skills gaps. It notes that the Scottish Government's newly introduced Shared Outcomes Framework may help to address some of these skills alignment issues.

**Conclusion 9:** However, the Committee notes with concern the report by the AGS which calls on the Scottish Government to take urgent action to ensure progress is made in improving how workforce skills are planned and provided. The Committee calls on the Scottish Government to provide full details of how it intends to respond to the recommendations in the AGS report in order to reach its own objectives on skills alignment.

**Conclusion 10:** As the Committee would expect, one of the key elements of the recently announced national strategy for economic transformation is Scotland's skills development. The Committee is of the view that the success or otherwise of the strategy will be measured through effective and achievable delivery plans. The Committee therefore calls on the Scottish Government to set out clear delivery plans and timeframes for achieving the strategy's aims to tackle Scotland's skills gaps, shortages and mismatches.

**Scottish Government response to conclusions 8, 9 and 10:** NSET provides the context for our skills agenda for the next decade and contains three projects targeted towards delivering a skilled population in Scotland that is able to respond to the needs of the economy and its future direction:

- Adapt the Education and Skills System to make it more agile and responsive to our economic needs and ambitions
- Support and incentivise people, and their employers, to invest in skills and training throughout their working lives
- Expand Scotland's available talent pool, at all skills levels, to give employers the skills pipeline they need to take advantage of opportunities

NSET thus provides important framing and strategic direction to revitalise and develop our skills offer so it is better able to support Scotland's economies and communities. Delivery plans are currently being developed and will set out in further detail the key outcomes, milestones, deliverables and measures to enable effective monitoring and reporting.

NSET also reinforces the need for intensive collaboration between agencies in order to deliver enhanced alignment of provision with economic need, resulting in a more agile and responsive system. Audit Scotland's report is helpful in informing our approach in this vital area. The Scottish Government and both agencies have accepted the recommendations and had already both anticipated and moved to respond to the issues identified in the report – putting in place new, stronger and simpler governance with a clear line of sight to Ministers, as well as clearer definitions and measures for success in our Shared Outcomes Framework,<sup>1</sup> which was published on 9 March 2022. This is the means by which SDS and SFC monitor and report on existing collaborative projects that contribute to overarching skills outcomes.

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<sup>1</sup> [Skills: shared outcomes framework - gov.scot \(www.gov.scot\)](https://www.gov.scot/Topics/education/skills/framework)

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The implementation of the Framework is overseen by the Shared Outcomes Assurance Group,<sup>2</sup> which comprises representatives of the three partners. The group reports directly to the Minister for Higher Education and Further Education, Youth Employment and Training. Papers and minutes from the group are published on the Scottish Government website.<sup>3</sup>

### Digital capabilities and skills, Logan Review and Tech Scalers

**Conclusion 11:** The Committee welcomes the renewed focus on developing Scotland's digital capabilities. However, it recommends that accelerated measurable action should be taken to ensure necessary progress.

**Conclusion 12:** The Committee considers it essential therefore that work is taken forward to address the digital skills shortage and prevent the digital skills gap in Scotland from growing. In this regard, it calls on the Scottish Government to provide full details of progress being made towards the implementation of the Logan review recommendations. This should set out work that is already being undertaken and that which is planned. The Scottish Government is also asked to provide an update on the establishment of the "Tech Scalers" network.

**Scottish Government response to conclusions 11 and 12:** Digital infrastructure is a key economic enabler and a critical part of our plans for a green and resilient economic recovery from COVID-19. Despite responsibility for telecommunications being reserved to the UK Government, we are making substantial investments in Scotland's digital infrastructure. We also continue to see a very competitive market for digital skills, with the number of digital vacancies continuing to rise in all sectors.

The Scottish Government has committed £100 million in this parliamentary session to developing the digital capabilities of Scotland's businesses. NSET contains a commitment to establish a Digital Productivity Fund, focused on supporting business to improve firm-level productivity and develop improved joint programmes of action to increase digital understanding and adoption.

In September 2020, we opened a small grant with a pot of £700,000 to support businesses to digitalise, and since then we have spent nearly £50 million through the Digital Development Grant. This programme has unlocked over £60 million of private sector investment and supported over 6,000 businesses to invest in technology, boost productivity and continue trading through the pandemic.

All of these programmes have reporting built in to demonstrate their impact, and a recent evaluation of digital support in Scotland showed that our current programmes are valued by businesses and deliver tangible economic benefits.

In Autumn 2022, two years after the initial publication of Mark Logan's Scottish Technology Ecosystem Review (STER), we will publish a report outlining progress on the review's recommendations and reaffirm our commitment to its implementation by outlining future plans. Ahead of this, in the coming weeks further details will be announced in relation to the

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<sup>2</sup> [Annex C: Shared Outcomes Assurance Group - Terms of Reference - Skills: shared outcomes framework - gov.scot \(www.gov.scot\)](https://www.gov.scot/annex-c-shared-outcomes-assurance-group-terms-of-reference-skills-shared-outcomes-framework)

<sup>3</sup> [Shared Outcomes Assurance Group minutes and papers: 17 January 2022 - gov.scot \(www.gov.scot\)](https://www.gov.scot/shared-outcomes-assurance-group-minutes-and-papers-17-january-2022)

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Tech Scaler network following the conclusion of a procurement process for a supplier. This is a transformative, multi-million pound investment which will support hundreds of tech start-ups to grow and scale in the years to come.

Significant progress has been made to date on the STER education recommendations, including the creation of STACS (Scottish Teachers Advancing Computing Science), a teacher-led organisation designed to spread best practice and advise us on implementation. In addition we have invested £1 million in new Computing Science hardware for all schools in Scotland. In Financial Year 2021/22 we delivered the £1 million Digital Start Fund and Digital Skills Pipeline programmes to upskill and reskill those wishing to enter a career in digital. We also funded the Digital Xtra Fund, which supports extracurricular activity for young people designed to engage and spark interest in pursuing further digital learning and a career in tech.

In 2022/23 we are investing a further £800,000 aimed at aligning ongoing and new skills initiatives more closely to the STER recommendations, whilst also seeking to leverage resources and drive synergies across a range of partners and interested parties, in order to continue to improve skills outcomes and better prepare Scotland's workforce for the opportunities available in the tech sector and more widely. This includes initiatives such as Tech Experts in the Classroom and Live Lessons, which continue to engage industry in the digital skills development of young people. In addition, the funding will go towards career promotion activity and training places to upskill and reskill individuals in order to address the immediate skills demand. Employers are also able to access the interest-free Digital Development Loan to upskill their employees.

### Second Strategic Transport Projects Review

**Conclusion 13:** The Committee notes that the Scottish Government and Transport Scotland have recently published the second Strategic Transport Projects Review which includes several projects which aim to tackle some of the challenges raised during this enquiry. The Committee recognises that this is a strategic document, but urges the Scottish Government and Transport Scotland to prioritise engagement with industry and other stakeholders in determining the priority of these projects, and make firm commitments on the capacity increases to be delivered and the timeline for delivery to ensure that industry are ready to take advantage of the benefits of this public investment.

**Scottish Government response:** The second Strategic Transport Projects Review (STPR2) represents a major piece of work to make all of Scotland more sustainable, with economic viability, environmental protection and social equity at its core. It contains 45 recommendations for future investment in Scotland's strategic transport network. The recommendations reposition our transport investment priorities, with a firm focus on how transport can help us protect our climate and improve lives. STPR2 will inform our future spending as part of the overall transport infrastructure programme, and will support the measures set out in January in our route map to reduce car kilometres by 20% by 2030.

We have received over 450 responses to our consultation, including from a range of organisations directly involved or with a particular interest in Scotland's supply chain, from industry and other related stakeholders. All responses are now being carefully considered in the context of the draft recommendations. The feedback received will inform the production

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of a Delivery Plan, which will be published later this year and will look to provide a further level of detail on priority and programme for delivery.

STPR2 recommends the Scottish Government brings together public and private sector organisations to develop a net zero freight and logistics network for Scotland that would encourage the switch to more sustainable and efficient freight transport. This involves considering road fleets, rail freight locomotives and best use of freight capacity, and we fully anticipate the need to continue engaging with relevant stakeholders to achieve this.

**Conclusion 14:** The Committee notes that Transport Scotland has recently published the Strategic Transport Projects Review, which includes projects that aim to increase the capacity on the rail network for freight and further electrification of Scotland's railways. It also notes Network Rail's plan to increase the amount of freight on the network by 7.5% by 2024. However, the Committee notes that despite broad agreement amongst stakeholders that increasing rail freight will deliver environmental and economic benefits, coupled with recommendations for action from parliamentary committees over a period of several years, progress has been extremely limited. The Committee therefore recommends that the Scottish Government and Transport Scotland further explores with industry how a modal shift towards rail freight can be driven forward in Scotland, and seek to engage with the UK Government to increase capacity on the key links to major distribution hubs in the south.

**Scottish Government response:** The Scottish Government has prioritised work on the promotion of the benefits of using rail freight and works in partnership with the industry on this. We continue to engage with the rail industry through a number of industry freight meetings as well as on an individual basis. The Low Carbon Logistics Conference, which was held during COP26, attracted many businesses and attendees from across the country and beyond, to support and learn about the challenges and opportunities of moving towards lower carbon logistics.

We are supporting rail freight through significant investment and regulatory targets to facilitate modal shift and are currently considering targets for rail freight growth for the period 2024-29. In addition, the capital and revenue support grants (Freight Facilities Grant and Mode Shift Revenue Support) have helped and are helping significantly with modal shift.

Decarbonisation is our priority rail project and our rolling programme of efficient electrification on key routes is an important enabler for rail freight growth as this will improve connectivity and create additional capacity. This puts freight at the heart of our electrification, and the benefits of electrifying key routes will encourage more customers and businesses to look to rail for a green logistics solution.

Over 70% of freight lifted in Scotland is cross border traffic, so Scottish Government Ministers and officials continue to engage with the Department of Transport to strongly encourage it to urgently consider and prioritise the electrification of links to key English ports and strengthen the power supply on cross border routes to ensure that it is sufficient for current passenger and freight services and can accommodate expected growth. These measures could immediately unlock a significant shift in rail freight traction type and would result in a much more efficient use of the network for all. The superior performance of electric freight trains is also expected to unlock capacity and improve performance for passenger services as well. We continue to press the UK Government to ensure adequate investment in rail freight and in decarbonising rail infrastructure to support this.

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## Ports and renewables

**Conclusion 15:** The Committee recommends that the Scottish Government works with the owners and operators of Scotland's ports to explore the viability of upgrading them to ensure that they are ready to take advantage of the significant opportunities that the transition to a net zero economy will offer, and leverage the £700m in income from the Scotwind auction round to support the necessary investment.

**Conclusion 16:** The Committee recommends that the Scottish Government should focus the £700m income from the Scotwind auction to support the development of supply chains in the renewable energy sector and the new technologies necessary to deliver a just transition.

**Scottish Government response to conclusions 15 and 16:** Ports in Scotland provide substantial employment, and contribute significantly to Scotland's economic growth and prosperity. The Scottish Government works closely with all of Scotland's ports, large and small, to maximise the positive contribution they make. It should be noted that ports are independent statutory bodies, each governed by their own local legislation, and are deemed commercial entities. Therefore, the Scottish Government is not involved in day-to-day operations or business decisions concerning the utilisation of resources. Ports are constantly adapting and investing to ensure they can best support the needs of their customers, and we have seen considerable success with Scottish ports, including facilitating the growth of the offshore renewable sector.

ScotWind is the world's largest offshore wind leasing round, putting Scotland at the forefront of the global development of offshore wind and represents a massive step forward in our transition to net zero. As the Cabinet Secretary for Net Zero, Energy and Transport outlined to the Scottish Parliament, Ministers are considering how the ScotWind revenues should be invested to maximise the benefits for the people of Scotland. Tackling the twin challenges of climate change and biodiversity loss, and securing lasting benefit for communities are key priorities for this investment. The Resource Spending Review delivers on this commitment by allocating up to £660 million of Scotwind revenue across the spending review period towards these priorities.

The Scottish Government notes and welcomes conclusion 16. The ScotWind projects will deliver investment across the Scottish supply chain and help create thousands of good green jobs, transforming the Scottish economy and accelerating our journey to becoming a net zero nation. The ScotWind leasing round was designed and administered by Crown Estate Scotland to focus on quality and deliverability of bids. Placing a cap on the amount bidders could offer per square kilometre ensured that bidders would have confidence to meet the further investment necessary to deliver on each project and realise the associated supply chain benefits. ScotWind's requirement for bidders to provide Supply Chain Development Statements has yielded commitments by developers to invest an average projection of £1.5 billion in Scotland per project, which equates to more than £25 billion across the 17 Scotwind offshore wind projects.

## Green freeports

**Conclusion 17:** The Committee welcomes the announcement that the Scottish and UK Government have reached an agreement of the free ports / green ports policy proposals.

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The Committee recommends that that the Scottish Government work with the industry and unions to ensure that the proposals for two Green Ports address the concerns the Committee has heard about introducing competitive advantage to the industry and ensuring that workers benefit from these developments.

**Scottish Government response:** The Scottish Government is committed to ensuring that Green Ports deliver benefits for workers through the creation of significant numbers of high-quality, well-paid jobs, as well as contribute to our climate change ambitions. We note the Committee's recommendation and will work with the winning bidders and wider stakeholders to make sure that Fair Work practices are embedded across the two Green Ports in Scotland.

### Wholesalers

**Conclusion 18:** The Committee recommends that the Scottish Government works with the Scottish Wholesale Association with a view to supporting an increase in the use of regional distribution centres which could reduce the demand for HGV drivers and encourage shifts to more sustainable transport methods, as well as improving competitiveness of smaller wholesalers and increase market access for smaller suppliers.

**Scottish Government response:** We engage extensively with the Scottish Wholesale Association on a range of interests related to the supply chain and will continue to do so through the Food Sector Resilience Group and the Zero Emissions Truck Taskforce.

The Scottish Government is carrying out a range of work exploring both the decarbonisation and improved efficiency of logistics supply chains, including last mile deliveries. Additionally, within the STPR2 process there is a recommendation to deliver behavioural change and modal shift to help reduce the number of goods vehicles' movements on the Scottish road network and emissions. We are happy to discuss with interested parties, including the SWA, proposals for new distribution centres or issues relating to existing ones, such as their contribution to more efficient supply chains and reducing emissions.

### Transition to net zero

**Conclusion 19:** The Committee has heard from several witnesses that greater certainty is required in terms of the support that will be available for the transition to net zero and the specific solutions and technologies that the Scottish Government will promote so that industry can prepare for and make the transition in time to meet the climate goals.

**Scottish Government response:** The Resource Spending Review and targeted refresh of the Capital Spending Review prioritised delivery across the climate change agenda over the course of this Parliament. This includes an increase in resource spend to deliver our Heat in Building strategy by up to £75 million per year, directly supporting £1.8 billion of overall public investment (including capital) to decarbonise over a million homes and 50,000 non-domestic buildings by 2030. This is alongside providing £4 million of resource spend, and at least £150 million of capital investment, for the 10 year North East and Moray Just Transition Fund, which will help finance organisations, businesses, communities and individuals to transition to net zero, creating jobs in low carbon industries and contributing to the region's future prosperity.

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A just transition to net zero is an opportunity to go beyond delivering our climate goals to bring a nation-wide, cross-industry transformation and build a greener and more equal Scotland. We have committed to developing Just Transition Plans for sectors, regions and sites, beginning with our Energy Strategy and Just Transition Plan, and we will also be issuing guidance for businesses on how they can develop their own just transition plans. This will support business and industry across all areas of the Scottish economy requiring decarbonisation, to ensure that the economic and social opportunities from the transition to net zero are not missed and that risks associated with rapid structural change are mitigated. This approach builds on our National Just Transition Planning Framework, which sets out how we will work with a broad range of stakeholders in the development of plans to ensure co-design is at the heart of the planning process. Plans will act as a guiding document, providing certainty for those involved in the transition and will be underpinned by working in partnership with business, workers and local communities.

**Conclusion 20:** The Committee considers that more incentives are required to encourage the modal shift to electric vehicles such as making significant improvements to charging infrastructure to provide confidence to logistics operators or through fiscal incentives at a UK level, such as a reduction in VAT levels for such vehicles.

**Scottish Government response:** In January, the Cabinet Secretary for Net Zero, Energy and Transport announced a new draft vision for Scotland's public charging network, which places Scotland at the forefront of a world-leading clean, green charging network, meeting the needs of people, communities and businesses. Scotland already has the most comprehensive public electric vehicle charging network in the UK outside of London. By far the largest number of charge points are on the ChargePlace Scotland network which has received over £50 million of Scottish Government funding and has grown to over 2,200 charge points.

The Scottish Government's priorities are threefold: encouraging commercial investment in the electric vehicle charging network through our new £60 million Electric Vehicle Infrastructure Fund; introducing regulations for electric vehicle charge point installation in car parks of new buildings and developments; and working with communities and designers to make charging an electric vehicle simple and reliable.

This year we are allocating almost £2 million to Scotland's local authorities to enable them to develop public electric vehicle charge point expansion plans. Aligned with the new Electric Vehicle Infrastructure Fund that aims to double the size of the public network over the next four years, these plans will reflect local needs, identifying the charging infrastructure requirements and the opportunities for drawing in and smoothing out commercial investment across all of Scotland.

To build confidence in zero emission heavy goods vehicles, Transport Scotland has convened a Zero Emission Truck Taskforce comprising leaders across road haulage and logistics operators, manufacturing, energy, and finance sectors. Over the next year, the Taskforce will identify the hurdles and opportunities offered by the transition to zero emission trucks. Working collaboratively, it will set out the steps required to enable a swift and just transition to new technologies, identifying where further development is required and exploring new business models.

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To facilitate the timely electrification of road transport in Scotland, the UK Government needs to create the conditions to enable electricity Distribution Network Operators to invest in the electricity network in advance of need, where there is clear evidence that doing so will be beneficial. The UK Government also has opportunities to use fiscal levers to incentivise the transition, including VAT on the use of electric vehicle charge points, so that it creates a fairer and more level playing field across different groups of society. The Scottish Government would welcome the Committee's support to urge progress here.

### Supply Chains Development Programme

**Conclusion 21:** The Committee notes the problems that can arise due to a lack of local suppliers when shocks to the supply chain occur such as those felt during the pandemic, or those currently being experienced as a result of Russia's invasion of Ukraine. The Committee welcomes the establishment of the Scottish Government's Supply Chains Development Programme in 2020 and its aims for that, and requests an update on this programme, its implementation plan and timeframes for action.

**Scottish Government response:** See response to conclusions 37 and 38 below.

### Food production and supply chains

**Conclusion 22:** Food production was not an area considered during the inquiry, and falls within the remit of the Rural Affairs, Islands and Natural Environment Committee. However, the Committee acknowledges that the impact of the Ukraine crisis on Scotland's food supply is significant, and considers that steps should be taken to increase domestic production and identify alternative sources where possible to make Scotland more resilient in the face of current and future supply chain shocks. In this regard, it welcomes the creation of a short-life taskforce by the Scottish Government to work jointly with the relevant industry sectors to respond to and mitigate the impact of the series of supply chain shocks that have occurred in recent years.

**Scottish Government response:** The short-life Food Security and Supply Taskforce was established on 17 March with a purpose to monitor, identify and respond to any potential disruption to food security and supply resulting from the impact of the ongoing conflict in Ukraine. The report of the taskforce was published on 23 June<sup>4</sup> and makes recommendations that cover three key themes: business and supply chain support, future national food security structures, and reserved issues to be raised with the UK Government. The taskforce has shown how collaboration between government and industry can work to the benefit of all our interests and focus on outcomes that protect us all.

### Construction and manufacturing

**Conclusion 24:** The Committee agrees that opportunities exist to produce more products in Scotland for both local consumption and export, particularly in the building and construction sector and in key emerging markets, such as wind, tidal and hydrogen energy.

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<sup>4</sup> [Short Life Food Security and Supply Taskforce: report - gov.scot \(www.gov.scot\)](https://www.gov.scot/resources/documents/2022/06/Short-Life-Food-Security-and-Supply-Taskforce-report-2022-06-23.pdf)

**Scottish Government response:** The Scottish Government agrees with the Committee and is determined to encourage, enable and exploit more opportunities that exist across Scotland to create new green products and services, and the skills, jobs and businesses which will go with them. Our manufacturing programme, *Making Scotland's Future*, is designed to support businesses to do that through a series of work streams led by public sector partners. A particular focus of *Making Scotland's Future* is emerging key markets, including those highlighted by the Committee, and working with lead policy officials and other key players within those industries to maximise opportunities for manufacturing companies.

The National Strategy for Economic Transformation sets out a range of actions to strengthen Scotland's position in new markets and industries to generate well-paid jobs and support a just transition to net zero. We are now developing sectoral and regional Just Transition Plans, including a Just Transition Plan for Buildings and Construction, which will identify relevant green industrial opportunities. Our first Just Transition Plan will be the Energy Strategy and Just Transition Plan, which is intended for publication in draft form this autumn.

We are also continuing to strengthen our domestic energy supply chain, recognising the considerable opportunities offered by renewables. We have announced a Hydrogen Supply Chain Event at the Edinburgh International Conference Centre on 22 September to help build on and explore the opportunities that exist within this emerging sector. For Offshore Wind, applicants to the ScotWind leasing round were required to submit a Supply Chain Development Statement (SCDS) that sets out the level and location of supply chain impact throughout the lifetime of projects. As noted above, these commitments amount to billions of pounds of investment to the Scottish supply chain, with initial projections showing an average spend of £1.5 billion in Scotland per project.

**Conclusion 25:** Given these opportunities, the Committee recommends that the Scottish Government lead by example and include carbon miles in its criteria for public building projects, to encourage more local production.

**Scottish Government response:** This summer the Scottish Government will extend its Construction Procurement Policy<sup>5</sup> and supporting guidance to consider Sustainability in Construction, assisting public sector contracting bodies to deliver their climate change emissions targets and social, economic and environmentally sustainable objective.

We support plans for a more sustainable, productive, innovative and diverse construction industry. Working through the Construction Leaders Forum's (CLF's) Transformation sub-group, we are building on existing work to prepare the industry to deliver a net zero carbon built environment. Work is ongoing to achieve low embedded carbon materials as a central feature of life-cycle net zero assets; prioritising local supply chains which support a whole life net zero sector, plus the development of clusters for timber products and recycled materials. This includes working closely with the Built Environment – Smarter Transformation (BE-ST), which is exploring alternative solutions to traditional methods and materials used for construction.

Projects are advised to set whole life carbon targets and/or objectives that will influence design, construction and procurement practices. This approach will encourage more responsible, efficient and circular resource use. It is recommended that projects refer to the

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<sup>5</sup> [Construction procurement - Public sector procurement - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/construction-procurement-policy-2020/pages/1-2-public-sector-procurement.aspx)

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Scottish Government Net Zero Public Sector Building Standard guidance<sup>6</sup> for the setting of embodied and operational targets, where appropriate.

**Conclusion 26:** The Committee also calls on the Scottish Government to work with the enterprise agencies to do more to enable businesses to identify and enable such opportunities.

**Scottish Government response:** The *Making Scotland's Future* programme has established a strong working partnership with our enterprise agencies and other public sector stakeholders. It is specifically designed to bring better coherence to the partnership's approach to supporting the sector and to maximise the impact of our interventions.

**Conclusion 27:** Given there can be a reluctance to make use of new more sustainable building materials, the Committee recommends that the Scottish Government should make appropriate amendments to building regulations to incentivise the use of more sustainable alternatives.

**Scottish Government response:** While the issue of whole life carbon costs is not currently addressed by building regulations in Scotland or, indeed anywhere in the UK, we recognise the benefit of any action which raises awareness of the broader environmental impact of development and influences development decisions. We will investigate opportunities for whole life emission reporting, through building regulations or by other means, and will provide an update on this before the end of 2022.

Through the work of the Supply Chain Development Programme we are investigating opportunities to increase the use of home grown Scottish timber in (largely offsite) construction. We have funded research at Edinburgh Napier University and the Built Environment-Smarter Transformation Unit to demonstrate that domestic timber is suitable for a number of uses in construction, for example, engineered timber products like glulam and CLT and more recently wood fibre insulation.

The Scottish Government supports the Food for Life Programme, which now operates across 18 local authorities in Scotland and supports the provision of more locally sourced, healthier food being served in schools.

It is important to note that any regulation which seeks to promote use of local materials would require to be considered against the provisions of both the UK Internal Market Act and wider legislation which seeks to prevent barriers to trade, such as World Trade Organisation rules.

**Conclusion 28:** The Committee recommends that the Scottish Government also lead by example and encourage the use of these sustainable locally produced alternatives via its procurement system, weighing bids on both the carbon miles of materials used, and whether the materials themselves are environmentally sustainable.

**Scottish Government response:** The Scottish Government will develop policies to drive the use of existing low-carbon materials.

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<sup>6</sup> [Net Zero Public Sector Buildings Standard - Scottish Futures Trust](#)

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Scottish Government climate change reporting duties<sup>7</sup> and public procurement policy require public bodies to consider and act on opportunities to improve environmental wellbeing and to report on targets for reducing direct (e.g. Scope 1) and indirect (e.g. Scope 2 and Scope 3) emissions of greenhouse gases. Through the work of the Climate and Procurement Forum, standardised statements and accompanying guidance for public bodies potential suppliers has been developed to make better use of an existing environmental management question in the Single Procurement Document. This proposed initiative should aid public bodies embed scalable and consistent requirements for bidder climate change plans. Guidance has been produced, including climate change plan templates to assist bidders and will be reviewed regularly to continuously improve capacity and capability of suppliers. The Scottish Government's Sustainable Procurement Tools<sup>8</sup> are available to all public bodies.

The draft National Planning Framework 4 (policy 2 – climate emergency) makes clear that all development should be designed to minimise emissions over its lifecycle in line with the decarbonisation pathways set out nationally; and that development proposals for national, major and critical development requiring Environmental Impact Assessment should be accompanied by a whole-life assessment of greenhouse gas emissions from the development.<sup>9</sup> Furthermore, policy 20 (zero waste)<sup>10</sup> is clear that all development should aim to use materials with the lowest forms of embodied emissions, that material should be suitable for reuse with minimal reprocessing, and encourages the use of previously used, sustainable, local, recycled and natural construction materials that also store carbon. Consultation on the draft NPF4 closed on 31 March 2022. We are considering all responses, and will lay a finalised NPF4 for approval by the Scottish Parliament before it is adopted by Ministers. Following its adoption, NPF4 will form part of the statutory development plan, the primary basis for decisions made through Scotland's planning system.

We are currently exploring the value and viability of launching a Sustainably Scottish brand. The Sustainably Scottish brand will champion Scotland's food and drink and will be available to all Scottish based producers, manufacturers and suppliers who can satisfy stringent criteria on provenance and low carbon operations. The first stages of research have been completed by the Scottish Agricultural Organisation Society (SAOS), including an international competitors review, consumer insights research, perspectives from in-market specialists, a review of Scottish / UK accreditation schemes, and issues analysis. This approach could potentially be extended to other materials.

Additional information can be found in response to Committee conclusion 25 above.

**Conclusion 29:** The Committee agrees that the opportunities offered by the development of these new, innovative and more environmentally sustainable alternatives present an exciting opportunity for Scotland to become a world leader in the field. The Committee hopes that more Scottish businesses will embrace these opportunities and take advantage of the support available to do so, for example from the Construction Scotland Innovation Centre.

**Scottish Government response:** The Scottish Government agrees with the Committee. In recent years, Scotland has developed an enviable infrastructure of support and

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<sup>7</sup> [The Climate Change \(Duties of Public Bodies: Reporting Requirements\) \(Scotland\) Order 2015 \(legislation.gov.uk\)](https://www.legislation.gov.uk)

<sup>8</sup> [Sustainable Procurement \(sustainableprocurementtools.scot\)](https://www.sustainableprocurementtools.scot)

<sup>9</sup> [policy-2-climate-emergency-pdf-203kb.pdf \(transformingplanning.scot\)](https://www.transformingplanning.scot/policy-2-climate-emergency-pdf-203kb.pdf)

<sup>10</sup> [policy-20-zero-waste-pdf-244kb.pdf \(transformingplanning.scot\)](https://www.transformingplanning.scot/policy-20-zero-waste-pdf-244kb.pdf)

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expertise. This includes BE-ST (formerly Construction Scotland Innovation Centre), as one of our seven Scottish Innovation Centres, as well as many other initiatives such as the National Manufacturing Institute Scotland, Michelin Scotland Innovation Parc and the 12 projects offering free services to manufacturing SMEs funded by the Advancing Manufacturing Challenge Fund. *Making Scotland's Future* brings public sector partners and other key players together to ensure a coherent and widespread approach to encouraging more businesses to take advantage of these offerings and identify ways to help make them more accessible.

**Conclusion 30:** The Committee welcomes the inclusion of innovation with regards to more sustainable products and materials produced in Scotland in the Scottish Government's new economic strategy, and seeks assurances that this will include the raw materials used in the construction industry. The Committee awaits sight of the associated delivery plans.

**Scottish Government response:** We welcome the Committee's comments about the National Strategy for Economic Transformation and we are developing prioritised and affordable delivery plans for each of its programmes within six months of publication of the strategy.

NSET states that: "Our new Net Zero Industrial Strategy, our Supply Chain Development Programme and our Making Scotland's Future programme will maximise opportunities for the use of Scottish manufactured components and ensure that high-value technology and innovation that is developed in Scotland can be manufactured in Scotland."

In relation to construction, BE-ST and ZWS are working with companies across the supply chain to develop and deliver new sustainable products. These include the K-Briq, a sustainable brick; Indinature, sustainable insulation; Levensat, recycling waste; and the British Glass Manufacturers Confederation on flat glass recycling.

On 30 May the Scottish Government published consultations on a Circular Economy Bill<sup>11</sup> and Waste Route Map<sup>12</sup>. The Route Map includes a package focusing on embedding sustainable construction practices that seeks to reduce resource needs, reduce waste and carbon, and encourage refurbishment and reuse. Timber products, for example, from domestic forests are sustainably produced and comply with the UK Forest Standard, which defines sustainable forest management. These can have multiple uses as they are repaired (pallets), reused (made into panel boards), or recycled (into biomass), over their lifetime. Each of these steps creates products that often substitute for more carbon intensive alternatives.

**Conclusion 31:** The Committee welcomes the work being undertaken as part of the Manufacturing Recovery Plan and notes the potential for the new and innovative products and systems being developed by Scottish firms. It notes the work done by the National Manufacturing Institute Scotland, Lightweight Manufacturing Centre, and Scottish Enterprise in assisting businesses to innovate in their production processes and encourages more businesses to consider this as a way to address current and future labour shortages, and to develop a sustainable and resilient supply chain.

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<sup>11</sup> [Delivering Scotland's circular economy: a consultation on proposals for a Circular Economy Bill - Scottish Government - Citizen Space](#)

<sup>12</sup> [Delivering Scotland's circular economy: A Route Map to 2025 and beyond - Scottish Government - Citizen Space \(consult.gov.scot\)](#)

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**Scottish Government response:** The Scottish Government welcomes the Committee's recognition of the work being undertaken as a part of the *Making Scotland's Future: A Recovery Plan for Manufacturing* and by our partner organisations. *Making Scotland's Future* will continue to take this work forward and ensure a collaborative and coherent approach to maximise opportunities and impact.

### Public procurement

**Conclusion 32:** The Committee recognises the tension in public procurement, with public expenditure often being driven by best value and cost which needs to be balanced with sustainability and local supply chains. It considers that a further localised breakdown of data on the award of public contracts in Scotland would provide an improved evidence base and help inform both future procurement policy decisions. Such an approach could also help identify how a greater balance between sustainability and best value and cost might be achieved.

**Scottish Government response:** During Financial Year 2020/21, Scottish public bodies advertised 15,635 new contract opportunities, with 18,880 suppliers awarded public sector contracts. Of these, 74% were Scottish; 62% were Scottish SMEs; and 78% were SMEs from all locations.

The latest published Scottish Ministers Annual Report on procurement activity in Scotland (covering FY2019-2020) shows that public procurement spend generates around £11.8 billion of economic activity for Scotland, contributing £6.5 billion to Scottish Gross Domestic Product and supporting around 120,000 full time equivalent jobs. Further, it confirms that £7.4 billion of public procurement spend went directly to businesses with a Scottish postcode, with many more businesses benefiting within our supply chains.

Our eProcurement Shared Service<sup>13</sup> provides a vast amount of data on procurement activity across Scotland<sup>14</sup> and we continue to work with service providers and users of the service to drive excellence, consistency and best practice in public procurement.

**Conclusion 33:** The Committee agrees however that the locality of a firm should be a major factor when awarding public contracts, both for the main contractor and sub-contractors as well as in the materials used for construction. It calls on the Scottish Government to consider whether the current procurement legislation and/or guidance should be reviewed with a view towards giving locality of contractors, and the carbon miles of the materials used, enhanced prominence in the procurement process. This would help to build community wealth around the country, helping to reach Net Zero goals by reducing carbon miles, and also help to build future resilience in the supply chain.

**Scottish Government response:** Following the UK's exit from the EU and the introduction of the Internal Market Act, the UK Government has made Subsidy Control a reserved matter without the consent of the Scottish Parliament, limiting the Scottish Government's ability to exercise devolved powers in this area.

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<sup>13</sup> [Home - Public Contracts Scotland](#) - our one stop shop advertising portal, which is the access point for any suppliers wishing to do business with the public sector across Scotland

<sup>14</sup> <https://www.publiccontractsscotland.gov.uk/helpandresources/download/cef83ea3-1789-4aa0-8622-b6d204fcead7>

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We understand the importance of, and are committed to, maximising the impact of procurement to support economic recovery. However, we cannot lose sight of the fact that public procurement is of great importance to international trade, representing a major part of a country's market. Consequently, international trade agreements, including those governed by the World Trade Organisation, afford reciprocal access to public contracts. Simply preventing foreign firms from bidding for Scotland's public contracts would not only risk breaching international trade deals but could also limit opportunities for Scottish firms to export their goods and services to other countries. Scottish procurement policy and legislation therefore takes different approaches to maximising the social, economic and environmental sustainability of public contracts and the statistics outlined in response to Committee conclusion 32 above compare well. We are committed to exploring what more we can do.

By encouraging innovation, procurement can provide industry with incentives for developing green products and services,<sup>15</sup> whilst helping to meet inclusivity goals through alleviating the barriers to securing procurement contracts SMEs might face globally. There are opportunities to encourage this through trade policy.

The Procurement Reform (Scotland) Act 2014 enshrined in law a public body's obligation to take account of social, economic and environmental considerations when undertaking a procurement, to devise processes that encourage the involvement of SMEs, the third sector and supported businesses, and to promote innovation.

In October 2021, the Scottish Government published guidance on supply chain resilience and diversity, reminding public bodies of practical steps that should be taken to support supply chains and help reduce the risk of disruption to supplies caused by supply chain vulnerabilities and surges in demand. This included:

- o ensuring they have identified higher risk supply chains, bottlenecks and vulnerable suppliers that need targeted action;
- o maximising opportunities to engage with the market to build the capability and flexible capacity of both existing and new supply chains;
- o engaging with key partners, including other public bodies, local economic development and enterprise organisations, to prioritise and target efforts;
- o considering action to achieve a positive social impact, assuring and protecting workers' rights within supply chains and achieving employment and skills where possible.

In addition, we engage with suppliers, economic colleagues and enterprise agencies to encourage engagement with local supply chains, and we offer support to small and third sector Scottish businesses on better bidding to help them win contracts. We continue to listen, learn and continually evolve our approaches to maximise the impact of procurement to embed fair work, climate and local considerations in more contracts.

**Conclusion 35:** It is vital that the Scottish Government provides clarity as early as possible to industry on the nature and volume of public projects, and the necessary specification to

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<sup>15</sup> European Commission (2016) Buying Green: A handbook on green public procurement 3<sup>rd</sup> edition <https://ec.europa.eu/environment/gpp/pdf/Buying-Green-Handbook-3rd-Edition.pdf>

allow local business to make the recruitment, training and investment decisions necessary to be ready to bid on work.

**Scottish Government response:** The Procurement Reform (Scotland) Act 2014 requires public bodies to publish forward-pipelines of upcoming contract opportunities in their Annual Procurement reports, and a Procurement Strategy which sets out that public body's policies, aims and objectives for their procurement spend. This gives business the chance to engage with public bodies to discuss requirements before the tender opportunity is advertised as an Invitation to Tender. The 2014 Act also requires that all public contract opportunities are advertised on a single website, Public Contract Scotland.<sup>16</sup>

The Scottish Government provides funding (up to £150,000 in 2022-23) to the Supplier Development Programme, which delivers free training and guidance on how to submit and win public procurement bids. The Programme also delivers free 'Meet the Buyer' events to put suppliers in touch with public sector buyers to learn more about up and coming contracts, in addition to running early engagement activities with public bodies to inform suppliers and ensure they have adequate time to prepare for specific contracting opportunities.

### Construction Pipeline Forecast Tool and Supply Chains Development Programme

**Conclusion 36:** The Committee welcomes the introduction of the Construction Pipeline Forecast Tool but recommends that the Scottish Government makes a greater effort to publicise this facility to the construction industry so its benefits can be fully realised.

**Scottish Government response:** Partners in the public and private sectors are working together through the Construction Leadership Forum to deliver the wide-ranging changes needed across the industry to prepare for the new decarbonisation workload, constructing and refurbishing net-zero assets in a resource efficient way. Working through the Forum's Transformation sub-group, we will build on existing work to prepare the industry to deliver a net-zero carbon built environment, which is an ongoing action in the Construction Sector Recovery Plan.

Working with the Scottish Futures Trust, we are continuing to promote the Construction Pipeline Forecast Tool through industry groups, social media and with public sector bodies to increase participation. The tool was launched in July 2021 and since then has seen a 20% increase in the number of authorities, value of projects and sectors captured. The tool currently maps projects with a total value of £11.1 billion from 45 public sector authorities. Since its launch, the tool has seen steady growth in membership, with the total number of registered users currently at 800. A communication and user engagement strategy has been developed to raise awareness and increase usage.

**Conclusion 37:** In this regard, the Committee recommends that the Scottish Government should establish a mechanism for engaging with the private sector, enterprise agencies and other stakeholders to embed learning and develop contingency planning to significantly improve the resilience of supply chains. It suggests that the remit of the Supply Chain Development Programme could be expanded to deliver this. It further suggests that the experiences of the short-term food supply task force could inform thinking on how such work might best be framed in order to gain maximum benefit.

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<sup>16</sup> [www.publiccontractsscotland.gov.uk](http://www.publiccontractsscotland.gov.uk)

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**Conclusion 38:** The Committee also requests a full update from the Scottish Government on the work that has been undertaken to date under the Supply Chain Development Programme, together with details of planned activity and current priorities.

**Scottish Government response to conclusions 37 and 38:** The Supply Chain Development Programme (SCDP) was initiated following the successful joint response of Scottish manufacturers, public agencies and the National Manufacturing Institute Scotland to the immediate supply chain challenges posed by the COVID-19 pandemic. By bringing together a coordinated picture of demand and supply capability we aligned procurement, innovation and business support functions to meet the requirements of NHS Scotland and fill the critical gaps left by fragmenting global supply chains for PPE, sanitiser and other vital supplies.

Drawing on the lessons from that experience, NSET signalled an expansion of the SCDP. This will be focused on a selection of key products, which are critical to the delivery of our net zero ambitions. The SCDP is closely aligned with the Scottish Government's overarching programme for manufacturing, *Making Scotland's Future*, and will leverage its partnership to ensure a fully integrated system of delivery. The SCDP will complement that structure, which includes a work stream on Supply Chains and Competitiveness, to deliver a rounded approach to look at where both public and private sector supply chains can be more resilient and productive.

Our initial focus within the SCDP is targeting product development opportunities around heat decarbonisation, hydrogen production and the built environment. For example: the use of Scottish timber in (largely offsite) construction; Scottish manufacturing and installation of heat pumps; manufactured components for new green and blue hydrogen supply infrastructure; low emissions vehicles; and opportunities arising from the Scottish Health Industry Partnership (SHIP).

**Conclusion 39:** In addition, the Committee notes that there appears to be little collaboration between the Scottish and UK Governments to ensure that initiatives designed to develop supply chains and help them overcome challenges are coordinated. It calls on both the Scottish and UK Governments, working closely with industry stakeholders, to identify opportunities for improvement in this area.

**Scottish Government response:** Through *Making Scotland's Future*, Scotland is well placed to ensure Scottish manufacturers can engage with and fully participate in Innovate UK programmes targeted at the manufacturing sector and the development of related supply chains. Innovate UK is represented on the *Making Scotland's Future* Programme Board.

An example of where the Scottish Government is working with the UK Government, as well as regional partners, is on City Region and Regional Growth Deals. The Deals will deliver significant and lasting economic benefits for individuals, businesses and communities across Scotland, creating thousands of jobs and up-skilling local labour markets. All Deals are delivered by local authorities and other regional partners, including higher and further education, enterprise agencies, and the voluntary and private sectors. This enables regional partners to lead the delivery of their Deals, strengthen local relationships, and tailor investments in response to local opportunities and needs. The sheer scale of the £5 billion

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investment that is committed over the lifespan of the Scottish Deals Programme provides assurance and the ability to maximise regional supply chain opportunities.

The Committee's report mentions Green Ports, which we are fully committed to delivering in partnership with the UK Government. Green Ports will help us to create new, well paid jobs, deliver a just transition to a net zero economy, and support our economic transformation. As noted above in response to the Committee's conclusion 17, applicants in Scotland are required to set out how they will support high-quality employment opportunities that offer good salaries and conditions, and how Fair Work practices will be embedded in the Green Ports area. They are also required to contribute towards a just transition to net zero by 2045, delivering net zero benefits through robust decarbonisation strategies and creating new green jobs.

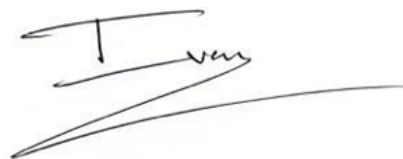
However, there are also examples of where the UK Government has refused to work effectively with the Scottish Government, which has presented obstacles to maximising Scotland's strengths and potential in areas critical to our economic transformation.

The UK Shared Prosperity Fund exemplifies the UK Government's encroachment into devolved policy areas through the Levelling Up Agenda and associated Funds. It is unacceptable for the UK Government to be deciding how money should be spent in areas of devolved responsibility. Despite continued assurances that relations will be reset with devolved governments, the UK Government continues to act in a manner that undermines the devolution settlement and does not offer parity of esteem.

Carbon capture and storage is a vital part of our energy transition, both as a mitigation approach and as a vital underpinning to negative emissions technologies. However, the Scottish Government does not hold all the necessary legislative and regulatory levers to support new carbon capture and storage projects. The UK Government's decision not to award the Scottish Cluster carbon capture project clear and definitive Track-1 status is a serious mistake which shows a clear lack of ambition and leadership on climate change, endangering Scotland and UK-wide net zero targets. It also delays and jeopardises a just transition for our energy workforce in Scotland, while the Scottish Government has offered £80 million to help accelerate the Scottish Cluster.

It is the Scottish Government's view that re-joining the EU at the earliest opportunity as an independent country represents the best future for Scotland, enabling us to take an even more ambitious and joined up approach to transforming Scotland's economy.

I hope that you find the above information helpful, and I would be happy to respond to any further questions the Committee may have.



**IVAN MCKEE**

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See [www.lobbying.scot](http://www.lobbying.scot)

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