



The Scottish Parliament
Pàrlamaid na h-Alba

Economy and Fair Work Committee

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Recovery

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Sent by email only

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Dear John

Economy and Fair Work Committee pre-budget 2023-24 views

In line with the written agreement on budget scrutiny between the Parliament and the Scottish Government, I attach the Economy and Fair Work Committee's suggested priorities in advance of the budget bill 2023-24 being introduced.

The Committee's focus last year was business support needed to recover from the pandemic and encourage investment and employment opportunities. Last year, it was acknowledged that the budget was being brought forward in challenging economic circumstances. This year, circumstances are no less challenging, indeed the Committee heard that for some sectors, the economic outlook is worse.

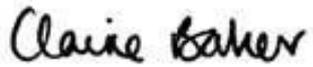
The Committee's pre-budget recommendations, for the Scottish Government, can be summarised as follows:

- Work with the Scottish Tourism Recovery Group (STERG) to identify the best business support required for this sector specifically including further business rates support, if possible.
- Protect Visit Scotland's international promotional spend as critical to maximise income for the sector in 2023/24.
- Identify and prioritise with skills development budget, policies and funding to incentivise workplace learning for the engineering and manufacturing sectors in particular.
- Use Enterprise funding to support those sectors with a buoyant export potential to expand – with an opportunity to focus on green energy transition support.
- Revisit the employability spend decisions for this year and next and provide robust Equality and Fairer Scotland impact assessments.

- Ensure women's business support disaggregation of spend and provide a profile of the £50m budget for the Women's Business Centre and progress on delivery.

The Committee looks forward to receiving your response at the time of the budget's publication.

Kind regards

A handwritten signature in black ink that reads "Claire Baker". The signature is written in a cursive, slightly slanted style.

Claire Baker MSP
Convener

Economy and Fair Work Committee 2023-2024 pre-budget comments

1. The Committee took evidence during September and October on the impact of the cost crisis on the tourism and hospitality and manufacturing sectors. Cost crisis pressures escalated over the summer and the Committee wanted to hear from sectors most heavily impacted. That evidence, along with evidence on women's contribution to the economy, formed the basis of this pre-budget input. The Committee's views and recommendations are drawn from evidence sessions on [28 September](#), [5 October](#) and [26 October 2022](#).

Tourism and Hospitality Sector pressures

2. The impact of rising costs on the tourism sector, against a backdrop of uncertainty and workforce shortage is causing significant concern. In addition to rising business costs, the cost of living crisis is impacting consumer spend and habits. Businesses are struggling. The sector is attempting to manage costs but at a time, according to Scottish Tourism Alliance, that "demand is now definitely, without a question, falling off a cliff and that is the challenge as we go into the winter".

3. The Scottish Tourism Alliance pointed out that more than half of tourism businesses had still not recovered from the pandemic, with 23% in "survival mode". UKHospitality said only a third of hospitality businesses were currently trading at a profit; 1 in 10 pubs would likely close for the winter and 4 out of 10 were expected to reduce their hours significantly. The Scottish Tourism Alliance said:

"From a business point of view, everybody would say we are in a worse place now than we were last year, without question. The impact of the cost rises affecting business, with the uncertainty of how to navigate through the challenges...are causing concern."

4. In the hospitality sector, wage inflation and the rising cost of food and drink were continuing concerns but increased energy costs "dwarfed the problems the businesses were experiencing". The sector is in continued discussions with the UK Government about targeted support. The sector is keen for the UK Government to reduce the rate of VAT. Postponed UK Government spending plans are awaited.

5. In terms of Scottish Government support, the extension of business rates relief and greater investment in tourism promotion are the two immediate asks. Over and above that, the sectors seek support to enable them to make the transformational changes needed to ensure sustainability and competitiveness in a global tourism market. Recognising the challenges currently faced, there were calls for a pause on the introduction of new regulations for initiatives such as the short-term licensing fee, deposit return scheme and the local visitor levy.

6. During the last year, the Committee has repeatedly been told that a key pressure for businesses is non-domestic rates. It was pointed out to the Committee that businesses in England receive 50 per cent rate relief (with a cap). The Committee heard calls for that to be replicated in Scotland as a minimum and, generally, for the Scottish Government to make more business support available.

Promoting Scotland as a leading destination

7. Scottish Tourism Alliance called for a funding focus on the international tourist market, where it is known demand is still strong, to ensure Scotland is promoted as a leading destination. Linked to this, was the recognition that investment in infrastructure is also vital to support the visitor experience.

8. In our pre-budget letter last year, we acknowledged the importance of tourism to Scotland's economy and called for the Scottish Government to fund Phase 2 of the Scottish Tourism Emergency Recovery Group (STERG) recovery plan. In response, the Scottish Government said it was unable to allocate any further funding to support the STERG proposals but that discussions would continue on how best to support business.

The Committee recognises the exceptional pressures now facing the tourism and hospitality sectors and calls on the Scottish Government to bring forward targeted business support. The Committee is strongly in favour of the sectors being prioritised for business rates support. The Committee asks the Scottish Government to engage with STERG to agree how best to target support.

The cost crisis has dampened and is expected, next year, to further depress the domestic tourism market. The Committee seeks the Scottish Government's assurance that its 2023-24 budget will protect VisitScotland's international marketing spend to ensure Scotland is vigorously promoted globally as a leading destination. The weak pound presents an opportunity, and the Scottish Government must capitalise on it, to encourage and drive international visitors to Scotland.

Manufacture sector pressures

9. The Committee was told that support for the construction industry (from the UK Government) on energy costs had "probably not been as good as we would have liked" but there were acknowledged difficulties in how support could be delivered, given contractual and supply chain considerations in the sector.

10. Scotland's textiles industry is primarily an export sector, they are competing with other countries and facing global pressures. It was noted that France's state-owned energy sector can provide businesses with a higher level of subsidy. Businesses there are seeing smaller cost impacts than in Scotland and, further afield, countries in Asia are not experiencing the same cost increases.

11. Scottish Engineering said that prior to the introduction of the price cap, a third of its members were at risk of either having to reduce staff or go out of business. Energy increases were on average 3.6 times and for some, 10 times. The cap has helped bring the energy cost rises down to an average of 2 or 3 times however despite the sector being buoyant and having full order books, energy price rises are pushing a significant number of businesses to the brink. Companies have let contracts based on a worst-case assumption about energy costs but if energy costs are above that level, they are still legally obliged to fulfil the contract but cannot do so without running out of cash.

12. Food and Drink Federation Scotland said that rising energy costs were also a significant factor for its members. The Committee was told that some had faced price increases of “five, six seven times”. After the introduction of the price cap, this had reduced to two or three times but nevertheless still represents a significant increase, particularly when facing the end of a contract.

13. However, the overarching asks were for stability to enable businesses to have some clarity with their cost base to help plan and price accordingly and for a stronger focus on developing skills in Scotland’s workforce and attracting and retaining staff.

Investing in Scotland’s Workforce

14. Investment and support from the Scottish Government to support the tourism and hospitality talent programme had been welcome but the continuing challenge is retention. The Committee heard that some employees could no longer afford to get to their places of work and were leaving the sector for other types of employment. The hospitality apprenticeship remains important but, just as important, is the provision of opportunities and support for older workers, particularly as more people look to supplement existing incomes. Scottish Government investment is sought to continue to invest in and upskill the sector workforce of all ages.

15. Unite Hospitality called for job security to be foremost in budget discussions, paying the real living wage and ensuring the removal of zero-hours contracts. They suggested a scheme, similar to the furlough scheme, may be necessary to protect workers in some sectors from the cost crisis. They call for any public money paid to employers and businesses to be contingent on signing the Scottish Business Pledge.

16. The Scottish Textile Industry Leadership Group emphasised the importance of supporting people in to work and developing skills. The Committee was told about success in the industry to bring in people with autism but that such initiatives require support and investment. It was observed that of the employment support available, some can be constrained by a requirement for at least a year’s commitment. This can be a barrier, particularly for seasonal businesses. More flexibility in the provision of employment support is sought.

17. Scottish Engineering pointed to low numbers of 17-year-olds in particular and said the end of free movement of people was “really significant” although it had, to some extent, masked the fact that the sector had not been “growing our own at the rate we could have done.” The end of free movement has meant that the option to quickly recruit workers and tradespeople from Europe to fill skills gaps has gone.

18. Scottish Engineering told the Committee that its members were “flat out of skills at the moment” with two significant national engineering projects not able to get the skilled workers needed. The Committee was concerned to be told that although Scotland has £12.8 billion of Scottish manufacturing spend committed, it is a challenge for SMEs to invest in skills needed 4 or 5 years down the line without “a direct line of sight to the purchase order that will pay for them” and that if the initiatives being talked about “were all to land today as genuine, off-and-running projects, we just would not have the people to do them.” The sector is looking for

focus and investment in workplace learning as, in the view of Scottish Engineering, when comparing levels of work-based learning with other similar nations “we are just not at the races”.

19. The Scottish Government has recently announced an independent review of Scotland’s skills landscape. The Committee welcomes the review but recognises an urgent need to ensure that the best use is made of available resource to meet the challenges and skill requirements of Scotland’s current and future workforce, particularly as Scotland transitions to a greener, less carbon-intensive and more sustainable economy.

Next year’s Scottish budget must prioritise funding for skills development, focused on the engineering and the wider manufacturing sectors to support and incentivise work-based learning and provide improved apprenticeship support. There is a strong economic need, in Scotland, for a better supply of skills to take advantage of the significant opportunities presented by ScotWind, renewable heat, hydrogen futures and decarbonisation initiatives towards meeting our net zero targets.

20. Recently, the Scottish Government announced a number of savings, including £53m in employability support, stating it is unable to progress planned additional activity to enhance available support for parents. The Scottish Government’s explanation is that due to “acute labour shortages, historically low unemployment and soaring inflation, we have taken the view that we must prioritise fair wages over spending on employability.”

Employability spend is targeted at supporting people back into work and can increase labour market by supporting those further from the labour market back into employment. At a time of acute labour shortages, difficulties with staff retention and recognising the benefits of an inclusive workforce and economy, the Committee asks that the Scottish Government look again at the rationale for the £53m cut to employability services. On the basis of available information, the Committee is not assured that the implications have been fully considered. The Committee asks the Scottish Government to provide the Equality and Fairer Scotland impact assessment undertaken in advance of this spending cut.

Women’s Business Centre

21. The Committee has previously welcomed the Scottish Government’s commitment of £50m, during the lifetime of this Parliament, to establish a women’s business centre. In our pre-budget letter last year, the Committee called for this work to be prioritised, sought a timeline for establishment and details on how the model would interact with existing agencies and Business Gateway. In response, the Scottish Government advised that preparatory work was underway.

22. In our recent evidence, it was emphasised that although current business support, for example delivered through Business Gateway, was vital and must be retained, it does not necessarily work well for women. Women’s Enterprise Scotland

(WES) noted that many women were keen to start up in business, but more was needed to maintain that momentum:

“We have 10 years of research and data pointing to the same consistent challenges: access to finance and access to support that understands women and their ideas, supports them to progress their ideas and gives them the confidence to go forward.”

The economic arguments are stronger than ever for securing better value for the public purse from women’s contributions and having more successful women in business. The Scottish Government is asked to provide an update on progress towards establishing a Women’s Business Centre, including a detailed spending profile of where and how the £50m committed funding will be spent and how much is being budgeted for in the next financial year. The Committee emphasises the importance of establishing a Women’s Business Centre.

Tackling inequalities

23. Analysis by Close the Gap has found that closing the gender gap in employment could potentially be worth £17 billion to the Scottish economy, however the Committee was told again this year that a lack of gender mainstreaming and robust data prevented informed policy decisions being made. Close the Gap pointed out that:

“During times of economic crisis, it is important that we target resources to get the most out of the Scottish Government’s spend. However, we do not yet have the data about who is experiencing poverty.”

24. It is known that women were disproportionately impacted by Covid and, as a result of the cost crisis, are more likely to experience poverty, including in-work poverty. Consequently, Close Gap are calling for better data and gender analysis to ensure strategies and investment are better targeted. For example, the Committee was told there has been a deterioration in the quality of equality impact assessments and both WES and Close the Gap said public procurement and conditionality were levers that could be put to better use in addressing the undervalued and underpaid roles held by women and gender equity more widely.

25. In our pre-budget letter last year, the Committee called on the Scottish Government to ensure gender-disaggregated data on women’s business activity and procurement in Scotland is gathered. Given the continuing concerns expressed to the Committee on the availability of data, the Scottish Government is asked to work with Close the Gap to identify what more can be done to remedy this.