OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Jobs and Fair Work Committee

Tuesday 22 May 2018

The Scottish Parliament
Pàrlamaid na h-Alba

Session 5

Tuesday 22 May 2018

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ECONOMY, JOBS AND FAIR WORK COMMITTEE
18th Meeting 2018, Session 5

CONVENER

Gordon Lindhurst (Lothian) (Con)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

Jackie Baillie (Dumbarton) (Lab)
*Colin Beattie (Midlothian North and Musselburgh) (SNP)
Kezia Dugdale (Lothian) (Lab)
*Jamie Halcro Johnston (Highlands and Islands) (Con)
*Dean Lockhart (Mid Scotland and Fife) (Con)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
Fulton MacGregor (Coatbridge and Chryston) (SNP)
*Gillian Martin (Aberdeenshire East) (SNP)
Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Sam Anson (Scottish Government)
Keith Brown (Cabinet Secretary for Economy, Jobs and Fair Work)
Gary Gillespie (Scottish Government)
Mary McAllan (Scottish Government)
Hugh McAloon (Scottish Government)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy, Jobs and Fair Work Committee

Tuesday 22 May 2018

[The Deputy Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Deputy Convener (John Mason): Good morning and welcome to the 18th meeting in 2018 of the Economy, Jobs and Fair Work Committee. I remind all members to turn off, or at least turn to silent, any electronic devices so that they do not interfere with the committee's work.

We are somewhat depleted this morning. We have apologies from Jackie Baillie, Kezia Dugdale, Fulton MacGregor and Andy Wightman. On top of that, as members can see, the convener, Gordon Lindhurst, is not here, although he expects to join us later. I will chair the meeting in the meantime.

Agenda item 1 is a decision on taking business in private. Does the committee agree to take agenda items 4, 5 and 6 in private?

Members *indicated agreement.*

Scotland's Economic Performance

09:31

The Deputy Convener: Agenda item 2 is the continuation of our inquiry into Scotland's economic performance. We have heard from a number of witnesses. Today, we have the Cabinet Secretary for Economy, Jobs and Fair Work, Keith Brown, with Scottish Government officials: Mary McAllan, director for economic development; Gary Gillespie, chief economist; Sam Anson, deputy director, economic policy; and Hugh McAloon, head of fair work and skills. I welcome all of you and invite the cabinet secretary to make an opening statement.

The Cabinet Secretary for Economy, Jobs and Fair Work (Keith Brown): I thank the committee for the opportunity to contribute to the investigation into Scotland's economic performance since 2007 and to look at the divergence in performance between Scotland, the United Kingdom and its regions, and other countries.

I welcome the scope of the committee's inquiry. I know that the committee has taken evidence that covers a wide range of areas and subjects that relate to Scotland's economic performance, and I look forward to receiving at the end of the process the recommendations on what further action might be required to make Scotland's economy even more inclusive, innovative and international.

I will start by setting out Scotland's recent economic performance before I turn to the broader economic outlook and some of the challenges.

Scotland's economic performance strengthened in 2017, with four quarters of growth recorded. That was driven by growth in services and—importantly—production, with sector support in the oil and gas sector beginning to return to growth, as the outlook for that sector continues to improve. The aggregate growth for Scotland, albeit that it is still below trend, is important against a backdrop of heightened uncertainty as the UK moves closer to leaving the European Union.

Alongside the growth, Scotland's labour market remains strong. Over the past year, unemployment has fallen to near record lows, employment has risen, and inactivity has fallen. The labour market in aggregate is performing at near record levels, which is welcome, although we acknowledge an element of underemployment in those figures.

Over the past decade, gross domestic product in Scotland has grown by 6.5 per cent. That equates to an average of just 0.7 per cent growth each year, compared with 1.1 per cent for the UK. Part of the difference in our economic performance compared with that of the UK reflects differences in population growth. When we make comparisons with the UK economy, it is important to note the unbalanced nature of that economy and the fact that some UK economic statistics are skewed by the impact that London has in dominating economic performance. I have heard the UK economy being referred to as flying on one engine because it is so unbalanced. Perhaps it is the most unbalanced developed economy in the world.

Since 2007, Scotland's economic performance has outperformed that of many of our peers, and productivity growth has been higher than that of any other country or region of the UK, including London. Employment in Scotland is now 66,000 higher than it was at its pre-recession peak, and there has been considerable progress in reducing youth unemployment. Scotland now has one of the lowest rates of youth unemployment in the EU.

The latest figures also show that GDP per head in Scotland is higher than that of anywhere else in the UK outside London and the south-east of England.

Those facts demonstrate the economic progress that has been made under this Government. The past decade covers the period of the global financial crisis and the deepest global recession since the 1930s, of course, so it is not surprising that Scottish GDP growth over that period is below the pre-recession trend of growth of around 2.1 per cent each year. Scotland's economy is not unlike other advanced economies in that respect. The trend in growth internationally has also been impacted by the financial crisis, with G7 growth averaging 1.1 per cent over the past decade.

There is no question that some of the consequences of the global recession and the UK Government's subsequent austerity programme have limited economic growth in Scotland. Since the European Union referendum in 2016, there has been on-going uncertainty for businesses and households. The fall in the oil price in 2014 led to a slowdown in the oil and gas supply chain that fed through to the wider Scottish economy, accounting for about two thirds of the slowdown in overall growth between 2014 and 2016.

Another factor that I am well aware has had a limiting effect on growth is the fact that Scotland's working age population has not grown as quickly as that of other countries. That is a challenge that Scotland has faced for many decades and it has been exacerbated by Brexit, which is why we have repeatedly called for Scotland to have the power to tailor its own migration policy to reflect the challenges that we face.

On the economic outlook, independent forecasts for the Scottish economy suggest that GDP will grow by between 0.7 and 1.4 per cent in 2018, and accelerate in 2019. There is consensus from all independent forecasts that the uncertainty surrounding Brexit is the key risk that is affecting the economic outlook. However, some Brexit deniers continue to deny that Brexit has had an impact on the economic outlook. There is no doubt that risks relating to business and consumer sentiment remain, and that is impacting on expenditure and investment in the economy.

The improved outlook relative to 2017's reflects, in part, a stronger world economy. In its latest "World Economic Outlook", the International Monetary Fund was clear that the world economy is enjoying a period of strong economic growth. The IMF has raised its growth forecasts for the world economy for this year and next year by 0.2 per cent above its forecasts in October 2017. The IMF has also upgraded its forecasts for the advanced economies by 0.5 and 0.4 per cent for 2018 and 2019 respectively. The UK is the only member of the group of seven leading countries not to have its growth forecast upgraded. The recent UK data for quarter 1 of 2018 reported growth of 0.1 per cent, which was below market expectations and below the Scottish economy's growth in the previous quarter of 0.3 per cent.

As I noted in my earlier remarks, there is a more positive outlook for oil and gas and related production activities, which should help to drive productivity growth. However, support is needed to maximise the longevity and success of that dynamic industry, and the UK Government's industrial strategy failed to mention any new developments in the oil and gas sector.

There is clearly an upside to future prospects for economic growth, but we must be alert to the potential downside from the unpredictable post-Brexit environment. We are just under 12 months away from formally exiting the EU without a clearly agreed path in terms of our on-going access to key EU markets. That remains the biggest uncertainty that will hamper economic growth and investment over the coming years. In fact, I would argue that uncertainty over Brexit has already had an impact on investment. It is virtually universally acknowledged that Brexit will damage our long-term economic growth, productivity, investment and trade. Related to that, with Scotland's working age population projected to grow only slightly over the next 25 years, a Brexit-induced decline in the number of EU migrants will have a damaging impact on our economy.

The economic outlook is perhaps inevitably uncertain, but I emphasise that the Scottish economy is facing the future from a position of relative economic strength. Despite the uncertainties, we are supporting business and continuing to grow Scotland's economy by focusing on investment, internationalisation, innovation and inclusive growth, and there have been many positive results from our actions. Scotland has secured more foreign direct investment projects than any other part of the UK outside of London since 2007. Such investments have supported 38,000 jobs in Scotland and are a vote of confidence in the economy. The Scottish Government is clear that we remain open to investment from the rest of the UK, Europe and further afield.

We have established a board of trade and created hubs in Dublin, London and Berlin. Our international goods exports, including oil and gas, grew by 19 per cent last year to £28.8 billion, which was the fastest growth in any of the UK nations. We are investing £48 million in our national manufacturing institute for Scotland in Renfrewshire, with the University of Strathclyde as the anchor university. We have invested more than £6 billion in the higher education sector over the past six years. Business expenditure in research and development exceeded £1 billion for the first time in 2016, and it is up almost 70 per cent in real terms since 2007.

We have also increased free high-quality early learning and childcare to 600 hours a year for all three and four-year-olds, which is up from 475 hours in 2007. On the living wage, Scotland remains the best performing of all four UK countries, with the highest proportion of employees—81.6 per cent—paid the living wage or more.

09:45

We are building on the successes of our enterprise and skills agencies, developing a system of support that is greater than the sum of its parts. A strategic board is now in place that will seek to maximise the impact of the collective investment that we make in enterprise and skills development and create the conditions for delivering inclusive growth. We are creating a new enterprise agency in the south of Scotland, with an economic partnership in place and backed with £10 million of investment. We also have a detailed implementation plan to establish a Scottish national investment bank to be a new cornerstone institution in Scotland's economic landscape, and we have undertaken to provide initial capitalisation of £340 million from 2019-20.

Having said all that, there are undoubtedly key challenges that the economy will face in the next 10 years and beyond. We are alive not only to the challenges of, for example, automation and technology, but to the opportunities that they will bring. The recent joint report with the Scottish Trades Union Congress on the impact of technological changes on Scottish jobs set out how digitisation, automation and other innovations will affect the Scottish labour market. We share a common objective with the STUC to ensure that automation and digitisation have positive outcomes for all Scotland's people.

There is one very significant challenge that is self-evident, which is that key economic power remains reserved to the UK Government on things such as the national minimum wage, national insurance and migration powers. Incidentally, the national minimum wage is what stops the Scottish Government from making the living wage a contractual requirement. Under European Union law, if we already have a national minimum wage, we cannot then impose a higher wage for procurement purposes. Having further powers, though, would allow us to invest in Scotland's economy and infrastructure, rather than be tied to the UK Government's hard Brexit and austerity policies. Although the UK Secretary of State for Business, Energy and Industrial Strategy recently acknowledged in the House of Commons that he has responsibility for growth in the economies of all the nations of the UK, the UK Government really needs to engage in a meaningful way with the Scottish Government on the industrial strategy.

Those are my views on the central issues in Scotland's economic performance. I believe that we now have a more resilient economy than we did in 2007, which has been evidenced not least by the way that it has dealt with one of the biggest shocks to any economy for many decades. Our ambition remains with regard to improving our economic, social and environmental outcomes as set out in the national performance framework. I look forward to the committee's forthcoming recommendations from its inquiry.

The Deputy Convener: Thank you, cabinet secretary. You have touched on a wide range of issues, and committee members will follow that up and ask about some of them. If any of your team wants to come into the discussion at any point, they should indicate that and I will try to bring them in.

I will start with one or two questions. You mentioned a number of things that are happening, have happened and will happen in the economy. In particular, though, targets were set in 2007 for the following 10 years, which are now complete. Can you give us some thoughts on how the economy has performed over the past 10 years? You said that it is more resilient, but there were specific targets to, for example, raise the gross domestic product growth rate to the UK level and to match the GDP growth rate of small independent European countries. How do you feel that we have done on some of those specific targets?

Keith Brown: We have met a number of the targets to which you referred, have not met a number of them and have made progress towards meeting a number of them. However, the targets were set in 2007 and since then we have had a huge recession—some say the biggest ever recession—which has been followed by eight years of austerity that has inevitably had an impact on demand in the economy, consumer spending and consumer confidence. Those targets were set, but the ability to achieve them was hit by more general economic circumstances. I am not making this stuff up, as everybody knows about it from their own lived experience.

However, to come back to the targets to which you referred, the target to match the GDP growth rate of small independent EU countries by 2017 has not been met, although the gap has narrowed. In the 10 years to 2007, Scotland's average growth rate was 1.1 percentage points behind that of the small EU countries; in 2017 that gap had almost halved to 0.6 percentage points. We also had a target to rank in the top quartile for productivity against our key trading partners by 2017. Our performance has not reached that target, but it is consistent on that measure, moving between the bottom of the second quartile and the top of the third quartile. I am perfectly willing to admit that we have not made the required step change, hence the additional focus through the enterprise and skills strategic board.

However, we have made some progress. Between 2007 and 2016, our productivity growth has been higher than that of any other country or region of the UK, including London. Although labour productivity growth in Scotland has slowed during the past decade, that trend has been seen in many countries since the economic downturn. Scotland's performance has been comparable to that of our key trading partners.

A number of other targets were also set, such as trying to match the average European population growth from 2007 to 2017. We have met that target. The population of Scotland has increased in each year since 2001 and is now at its highest ever level, at 5.42 million. That stands beside the comment that I made in my opening statement that we would like to have control over that, especially because of emerging trends that are related to Brexit that show that people are either leaving or choosing not to come to Scotland or the UK. That might suit the UK—I argue that it does not, but that is for the UK to decide. It certainly does not suit the economy in Scotland.

There has been a mix of targets. Some have been achieved and some have not. All have been affected by global circumstances through the recession, austerity and the 2014 downturn in the price of oil and gas.

The Deputy Convener: One of the targets was to raise the GDP growth rate to the UK level. You have already said this morning that the UK has an unbalanced economy and one engine, in many ways. Should we be comparing Scotland with the United Kingdom as a whole or should we be comparing it with other sizeable chunks of it, such as the north of England? Can we really compare it with the south east of England?

Keith Brown: That is a good point. If we set the target, we have to be held to account for it, so we have to have that comparison between Scotland and the UK. However, in the past two or three years, we have made a much more rounded assessment that is based on a comparison with other regions and nations of the UK. In that context, under different criteria, Scotland either sits among the average of countries and regions of the UK, or it is well above, sitting just behind the south-east of England and London.

All that points to the fact that the UK has a grossly imbalanced economy. It is an unequal economy and its inequality is, in some respects, greater than that in the US. The UK has a dysfunctional economy. In the north-east, the north-west, the midlands and Wales, people are saying the same thing. This is not the way to run an economy. London sucking in resources in the way that it does at the expense of other parts of the UK is a difficulty.

In order for us to make a proper assessment, we have to be kept to the targets that we set. I accept that, with regard to the comparison between Scotland and the UK. However, we need to make a proper assessment of that comparison. You have had that in some of the discussions during the committee's inquiry. We also have to look at other parts of the UK, and that leads us to an assessment that we have an unequal and, to some extent, dysfunctional economy in the UK.

The Deputy Convener: Gillian Martin has a supplementary on that point.

Gillian Martin (Aberdeenshire East) (SNP): I was interested in the commentary on the gross national income statistics that came out a couple of weeks ago. Some of the commentary was about the outflow of income from Scotland. Scotland is producing a sizeable income, but a lot of it is flowing out of Scotland. Of course, a major indicator of that is oil and gas, which produce a lot of revenue, but it goes out of Scotland. Is that making the economy more imbalanced?

Keith Brown: Yes, although it is also true to say that that will be a factor for other parts of the UK. This morning, I just happened to see a graph showing the ownership of supermarkets in

Denmark compared to that in Scotland; the number of supermarkets in Denmark that are owned in Denmark is pretty substantial whereas none of the big supermarkets here is owned in Scotland.

There is an outflow that arises because of our poorer position in terms of headquarter functions. For decades, there has been a trend in headquarters being taken towards the south-east, particularly London, and with those headquarters tend to go headquarters jobs. As much as any income that is raised from such companies, which in any event goes to the Exchequer, it is the loss of those high-value jobs that is detrimental to the economy. It is another facet of what is a very imbalanced economy. Scotland can do far better than be tied to such an economy.

The Deputy Convener: Can you highlight two or three Government policies that have made a positive impact over the past 10 years?

Keith Brown: There are several. The small business bonus scheme has had a major impact. We are about to do some analysis to bottom out the evidence base for that—that will come under the portfolio of the Cabinet Secretary for Finance and Constitution, rather than mine. From my constituency, I know—I assume that other members know this, too—that, in the teeth of the recession, the small business bonus scheme allowed small businesses to survive or to keep a member of staff that they would not have kept because of cost pressures, or to take on a new member of staff, such as an apprentice, because of the savings made from the rates. That support has been substantial and has been particularly important for the Scottish economy because 98 per cent of our companies are small to medium-sized enterprises. That has been a major boon for the Scottish economy.

Latterly, our focus on the living wage has produced benefits. As I said in my opening remarks, of all the countries in the UK, we have the highest proportion of people who are paid the living wage: 81.6 per cent. That has been very beneficial.

To go back to the worst of the recession, we are still seeing in our employment figures the benefits of our decision in 2011-12 to have a no compulsory redundancy policy. The reason for that policy was not just to keep people in jobs, important though that was. You may remember that, at that time, the First Minister mentioned that part of the reason for the policy was so that people would have confidence that their job was safe. That was accompanied by a period of wage restraint. We are only now seeing people come out of that period. However, the fact that people had confidence that they would keep their jobs was important for demand in the economy.

We also did some important work in training, including the opportunities for all programme, which guarantees a place in training or an apprenticeship for all 16 to 19-year-olds. Back in the early part of the decade, there was very high youth unemployment. As I mentioned in my opening statement, we turned that rate around to become one of the lowest in the EU and below the UK average. That has been a real boost. Youth employment is something that you might not appreciate when you have it, but if—like Spain, where there are huge numbers of young people who are unemployed—you do not have it, it is a major generational problem for society. We have done several things to mitigate the effects of some of the shocks on the economy.

The Deputy Convener: Finally, you mentioned looking forward in a few areas, including Brexit, which we will leave for now, because other people will address it later, and automation. What are the risks and challenges that we face in the next 10 years?

Keith Brown: Automation and digitisation throw up major questions. For example, what happens to vehicle excise duty as a result of autonomous vehicles and low-carbon vehicles, and what will autonomous vehicles mean for certain services that are currently provided by buses and taxis and for those people who have trained as drivers? If, as is likely, autonomous vehicles start to transport freight, what does it mean for people who are employed in that industry?

In Japan, a company has—I am not sure how to describe it—an artificial intelligence on its board. That gives you an idea of the way in which things are changing. The role of people in the economy is also changing.

Alongside the STUC, we have established a just transition group, which will consider how we can manage those processes and ensure that people do not pay the price in terms of jobs or fulfilling work. It is clear that automation, digitisation and the growth of artificial intelligence and the use of data will have an impact on the labour market and on our economy. However, importantly, those things also represent opportunities, and we have done a great deal to try to maximise the benefit from those. The data lab at the University of Edinburgh and associated universities now has an international reputation. There are threats, but there are also benefits.

Another challenge, which I alluded to briefly in my opening statement, is the demographic one. We still face an ageing workforce. It seems axiomatic to me that we should bolster that workforce by being an open country for migrant labour, which has been a real boost to Scotland. I will not talk about Brexit, as we are going to come on to that later, but if our ability to have people come to the country, especially in sectors such as hospitality, retail and agriculture, is restricted, that will have an effect as well.

The Deputy Convener: It is a fascinating idea that Japanese companies have AI on their boards. We could maybe try that in committees.

Colin Beattie (Midlothian North and Musselburgh) (SNP): We have had a lot of focus on productivity, which has been identified as the key to Scotland's long-term economic growth potential. You have touched on a number of elements of that. One of the key things that we have heard in evidence is that growth in GDP per head between 2007 and 2017 was 1.5 per cent in Scotland versus 3.5 per cent in the UK as a whole. We have also had evidence that little progress has been made in narrowing the productivity gap between Scotland and the best performing countries. There are examples of success but, broadly speaking, that is the evidence that has come out. Very simply, why are we lagging behind other countries?

Keith Brown: I noticed that members asked that question of many of the people who appeared before the committee. From my review of the evidence, I do not think that anybody came up with a definitive answer. However, they tended to focus on issues such as skills, innovation and the quality of management or leadership in the workplace, which is an important issue on which there is a lot more focus these days. The level of business research and development is another key factor. As I mentioned in my opening statement, I was pleased to see expenditure on that go above £1 billion for the first time, as there has been a long tail of business underinvestment in research and development.

I am afraid that I cannot give you one reason. We have seen more than 5 per cent growth in productivity, which is well above what the UK has achieved, but we still lag—although slightly now—behind the UK and, as you rightly say, the UK still lags behind other economies. In trying to deal with the productivity puzzle, as it is often called, we need to focus on those areas. The enterprise and skills review sought to do that, and the national manufacturing centre of excellence will also seek to achieve a change in productivity. As is borne out by the evidence that the committee has heard, there is not one silver bullet that will do that.

It might be useful to hear from the chief economist about productivity.

Gary Gillespie (Scottish Government): I read the evidence to the committee last night and found quite a lot of different views on the productivity puzzle. As Mr Brown said, first and foremost, it is not a Scottish or UK issue; it is reflected in the data for the Organisation for Economic Co-operation and Development and the EU 15. In Scotland in the period from 2000 to 2007, the productivity growth rate averaged about 1.2 per cent while in the UK it was growing at closer to 2 per cent. We lagged in that period but, interestingly, from 2007 to 2016, growth in Scotland has been around 0.8 per cent compared with a broadly flat figure in the UK, so something has happened in that period. We are actually closer to the OECD average and the EU average.

What does it all mean in the round? In a sense, productivity is a whole-system measure. The specific measure captures the value added per hour of work but, in a sense, it reflects the whole productivity of the system, by which I mean more than just the economy. I will pick up on some factors that may have contributed to the situation, as there are different arguments around what has driven it.

The financial crisis provides a plausible argument about what happened to the banking sector and whether there was an adverse supply-side shock that led to different types of function in the provision of credit and impacted on the churn of businesses in the sector—I am referring here to the idea of zombie firms being kept afloat.

10:00

Linked to that, we have seen and heard evidence about weak private investment in the Scottish economy and the extent to which that is driven by the banking sector, the provision of finance or the types of enterprises that we have had.

You have heard in your evidence that there is quite a difference between the performances of different sectors. There is a difference in productivity, with high-value-added sectors such as the utilities, energy and business financial services and lower-value-added sectors such as retail and tourism. It was very interesting to see the range of performance within sectors. Not all firms are performing at the higher level.

Mr Brown has touched on fair work and the utilisation of skills in the workplace. One issue there is retraining. I will also mention the debate on inequality and the extent to which it contributes to less productive societies. When he was here giving evidence, Sir Harry Burns touched on the productive value of all people in society. If people are excluded or do not participate, that undermines the productive possibility of the economy. There is no single answer; a combination of things interlink and drive productivity.

Colin Beattie: There is something that I have been interested in as a fairly new member of the committee. The figures for GDP and so on do not seem to be solid figures. There is an awful lot of extrapolation and, frankly, guesswork in producing them. How accurate are they?

Keith Brown: That is a very good question. The committee has carried out an investigation into economic statistics. The short answer is that they are complicated. We produce a number of economic statistics ourselves, and the Office for National Statistics provides quite a lot of stats. Some of the stats that we provide are a combination of both. For example, we have to wait for almost a year to get the last figures that we need to be able to produce our export figures—I think that the energy figures from the UK Department for Business, Energy and Industrial Strategy are the last set of figures that we get. It may be useful to have figures from more than a year ago, but we need more up-to-date information.

Through the establishment of the Strategic Board for Enterprise and Skills, we have put in place an analytical unit with Stephen Boyle, formerly of RBS, which is examining the quality and range of stats that we have. The underlying point is that, unless we have confidence in the range and relevance of the stats that are provided, we cannot take the right decisions on the economy.

By and large, there is integrity in the figures, but the issue is whether they are always timeous enough. Many of them are based on surveys, and we sometimes pay for a boost to UK surveys. There is a different situation in Northern Ireland, where all companies are obliged to report back on such things, but we have not gone down that route.

I accept the point about greater consistency, as well as relevance. There is a measure that many countries do, called a whole-of-the-economy report; we do not do that in this country, but it would be worth considering.

It would be best to hear from the experts on this, but I think we can rely on the figures that we have, although we should not be complacent that they are always the most relevant or up to date, and we should not assume that they could not be improved.

Gary Gillespie: I would agree with all of that. Essentially, GDP measures the value of goods and services produced in the quarter. Let us think about that. There are 380,000 enterprises. Within 100 days of the last quarter, we are producing an estimate of the change in the total output, income or expenditure in the economy. Given the timescale and the fact that we have to draw on survey evidence, which is then imputed for the wider economy, that is an estimate. However, the estimates have been shown to be relatively robust. They are subject to revision as we get better data. As companies' turnover and profits are formally published and audited, we get better data. Generally, our GDP data in the UK and in Scotland is among the best in the EU, and it is the most timely.

I can understand the frustration around different sectors—people have picked up on the issue of construction trends in Scotland, for example—but, generally, the methodology, the approach and how information is conveyed is strong in Scotland. I have no concerns about it.

Colin Beattie: In your opening statement you talked about population growth south of the border driving productivity figures there to a certain extent. In comparing Scotland with the rest of the United Kingdom, do you try and strip those figures out and adjust for them?

Keith Brown: Again, the statisticians would be able to answer that more fully, but I know that they try to account for the figures. The extent to which GDP figures are linked to population growth is well evidenced, so we understand that point. There are ways in which one can strip out the figures; Gary Gillespie can speak about measures that exist in that regard.

We understand that for decades—even centuries—Scotland has had lower population growth than the rest of the UK. We try and account for that—not least, because we want to make the point that, if we had more control over our population levels, particularly with regard to immigration, we could make an impact.

Gary Gillespie: The issue can be broken down into three elements: productivity; participation; and population. We have done analyses in that regard that we have published in our report, "State of the Economy".

Mr Brown said that the average growth rate over the past 10 years was 0.7 in Scotland and 1.1 in the UK. If we break those figures down into the contributions that are made by productivity, participation and population, we find that about a third of the UK's growth will have been underpinned by population while, in Scotland, the figure will be about 15 per cent to 20 per cent, with productivity being a smaller piece and participation being the other element.

In aggregate terms, a growing population brings more people into the economy, increases aggregate demand and, in essence, makes the economy bigger: it does not necessarily make the economy more productive, but it boosts its size. Fewer people means a shrinking economy, which is why we focus on GDP per capita and output per hour worked, because that allows us to control for differences in the size of the economy. However, population itself is a driver of growth in the economy.

The Deputy Convener: I do not want to push our time too much. Could you make this your final question, Colin?

Colin Beattie: I will move on to a slightly different aspect. We have heard evidence that Scottish businesses lack ambition in terms of their growth. Obviously, that is a key concern if we are trying to improve GDP. Do you agree with that evidence? If so, how do we tackle that?

Keith Brown: Recently, I was talking to the person who is in charge of the Confederation of British Industry in Scotland, and she feels that there is quite a level of that attitude—that is to say, a lot of companies are satisfied with the markets that they have and do not necessarily want to get into exporting, or even to expand. That is perfectly legitimate; we cannot tell companies that they should grow in this way or that way. If they are happy with what they do, know their markets and so on, that is a matter for them.

However, we want to encourage companies that have been inhibited from becoming involved in exporting or further expansion. A typical example is the family business that has succession planning in place, knows its market and, basically, wants to keep on doing what it has been doing. That approach might have an effect on the economy, but such companies exist in every economy in the world.

We are trying to increase the number of companies that export. People sometimes have the idea that exporting is intrinsically difficult because they have to speak other languages, there is bureaucracy involved and so on. We have done a lot, some of it with the UK Government, to dispel fears and inhibitions.

I am often asked whether there is a benefit from Brexit. I usually struggle to see any. However, if the public discussion that we are having as a result of Brexit, about international trade, acts as a way of making more obvious to people the benefits of international trade, that should be a good thing.

The issue that Colin Beattie mentioned relates to the performance of the economy and is, perhaps, exacerbated by the relative geographic peripherality of Scotland—that also applies to Ireland. We are trying to overcome it. That is why we have ensured that our business support for enterprise and skills is as focused as possible on internationalisation, investment and innovation.

Dean Lockhart (Mid Scotland and Fife) (Con): I will follow up on the point about growth of business and the relationship with microeconomic policy—for example, through the large business supplement, whereby companies that grow above a certain level must pay significantly higher rates. We have heard evidence in the committee that that policy acts as a barrier to growth. Do you share that concern?

Keith Brown: The various measures that we have used have to be seen as a whole. The business supplement should be seen in the context of what we do for small businesses. It is right that Governments have a basket of measures.

The business supplement largely affects the retail sector, among others. I am sure that the retail sector has told the committee—it has certainly told me—that its biggest concern is the amount of disposable income in the economy: people having money to spend on goods is a big factor. I accept that concern, and we have, along with the other measures that we have taken, reduced the lowest rate of taxation to the lowest rate in the UK.

Those measures have to be viewed in tandem with our efforts on fair work. Our preference is to have the real living wage rather than the national living wage. If companies employ people on the real living wage—most do—that increases the amount of disposable income in the economy. A person who is being paid the living wage is, by definition, using it only to live on, when it comes to buying goods and services from retail companies.

Of course, nobody likes to pay taxes or rates, but we have taken a balanced approach that should help the retail and other sectors to achieve growth. I do not think that growth is inhibited when those different measures are taken together.

Gary Gillespie: I will link to the previous question about the lack of ambition, which relates to the growth in the number of self-employed people and the number of lifestyle businesses. The UK and Scotland economies include fewer medium-sized businesses; they are dominated by large companies and small businesses. Therefore, there might be a need to increase the number of medium-sized businesses, which would be the engines or drivers of growth. That is worth adding to the record.

Mary McAllan (Scottish Government): The point about the economy’s structure is important. We are trying to support innovation in universities moving across to business, through our innovation centres. We are also trying to make sure that business spend on innovation, and on research and development, is as high as it can be. That spend has not historically been as high in the business sector as it has in the university sector—business spend has been very much lower.

We are trying to encourage greater spend by providing support. We have given about £22 million to Scottish Enterprise to help businesses to invest in research and development. We have upped that by £15 million per annum for the next three years, and our target is that business will double its investment in its own innovation. I am not necessarily talking about innovation of the "Eureka!" type—it could be process innovation or the company understanding how it might run its business better.

We are somewhat worried about the long tail of companies that consider that they are doing perfectly well, but are not doing the things that would allow them to grow faster. Sometimes, that is because they do not want to grow, and sometimes it is because they do not know how to do other things. Therefore, we face challenges in providing the investment, knowledge, support and information that will help those businesses to operate differently.

Dean Lockhart: I think that there is consensus about the need to scale some small businesses up to medium-sized businesses. Removal of the barriers in their journey to scaling up is an important policy priority—to the extent that we can do that, from a public sector perspective.

I will move on to policy questions. During an evidence-taking session, we heard from the strategic board and others about the performance gaps relating to the "four Is" targets, which are inclusive growth, innovation, internationalisation and investment. We also heard evidence about a lack of focus and clarity in policy and where it might be heading. Given that, do you have plans to review the Scottish Government's economic policy on the four Is or otherwise?

10:15

Keith Brown: We think that the four Is remain relevant and provide a good focus on where to steer the economy. However, as has emerged when Dean Lockhart has raised the matter in the chamber, his question relates partly to the complicated landscape that we have. Let us go back to the enterprise and skills review and the establishment of the strategic board that Mr Lockhart has mentioned. I have said all the way through the process that part of the board's aim should be to achieve decluttering of the landscape. I have asked that the board continue with that process.

Very often it is the Scottish Government that puts buildings or structures on that landscape, but the UK Government also does so. Sometimes we do so jointly—for example, in relation to the city region deals. From the point of view of users—the businesses or people who want to establish them—there is still scope for greater clarity, so the process, which was started under the enterprise and skills review, will continue and should provide that. However, we remain committed to the four Is and think that they are relevant to where we want the economy to go.

Dean Lockhart: You mentioned the UK Government's industrial strategy. What specific steps is the Scottish Government taking to work with the UK Government to identify opportunities for Scottish business through sector deals, the innovation challenge fund and other funding that is available under that strategy?

Keith Brown: First of all, we have been very keen to be partners in the process, but that has not been easy, at times. For example, despite assurances that we would be treated as partners, we were sent the industrial strategy on the Saturday night before the Monday when it was published.

It is also not easy when the sector deals—which, to be fair, are often led by industry itself—have not involved a Scottish component until we or the sector have brought that to the attention of the UK Government. That situation is improving somewhat, and I am very grateful that Lord Henley, who is a minister in the Department for Business, Energy and Industrial Strategy, has recently agreed to re-run one of the sector deals because he acknowledged that there had not been sufficient involvement from Scotland. We have had a number of discussions, including one that I had recently with the Secretary of State for Business, Energy and Industrial Strategy, at which we agreed to meet regularly to discuss the matter.

Because of representations that we have made to the UK Government and to Innovate UK, we have seen take-up for Scotland being much better, as far as the quantum of money is concerned: it is now up to about 14 per cent of the available funds. However, we are still concerned that there is too narrow a base in Scotland, so I have made that point to the UK Government. My officials also participate in regular calls with their UK counterparts.

We have also said to the UK Government that in order that we can see the whole picture of what the industrial strategy will do, we must have clarity about the shared prosperity fund. That is becoming very pressing. We and the UK Government have established a group called the Scottish business growth group, which is attended by me and, usually, Ian Duncan. At the group's most recent meeting, very strong representations were made about our need for clarity on the shared prosperity fund, which will be the successor to many of the European structural and other funds that are currently available. Such clarity is very important for lots of businesses: we are about 10 months away from the Brexit date, and people still do not even know the basis on which the shared prosperity funding will be delivered.

We have dialogue, and it has improved since the announcement of the UK Government's industrial strategy. We make regular representations on it: I speak and write to the secretary of state, and my officials collaborate with UK officials.

Dean Lockhart: I have a final question on social enterprise, on the importance of which there is some consensus, and on which there has been increased focus. The sector has expressed concern that the definition of "social enterprise"—what may or may not be included in it—is slightly confused. There are guidelines, but there is no statutory definition, which many people have said in evidence is a barrier to growth in the sector. Do you recognise that as being an issue? One of the officials might want to give us their thoughts on that.

Keith Brown: My colleagues can choose who will be the lucky one. I have not received any representations along those lines, although I am not saying that such concerns do not exist. Who wants to come in on that?

Mary McAllan: I am not sure that I can comment on the detail because I do not deal very much with social enterprises. However, I know that, over many years, the Government has put a lot of effort into working with social enterprises and developing a social enterprise strategy. An element of Scottish Enterprise's function is to support social enterprise. If I remember correctly, that also applies to business gateway.

The question of a statutory identity for social enterprise would depend on the legislation that the definition was founded in. If it were to be founded in Scottish legislation, that would obviously be for us to look at, but if it were to be founded on company law or another matter that is reserved to the UK, then it would have to be considered on a UK basis. Social enterprise is, by its nature, difficult to define—I will not say "ambiguous", because that is the wrong word and would sound pejorative when it is not intended to be—because it has such wide dimensions.

Last but not least, Highlands and Islands Enterprise's remit includes a role in community enterprise; it account manages some community enterprises and works with social enterprises. That aspect is being considered as part of the work to set up the enterprise agency for the south of Scotland.

The Deputy Convener: We are getting very full answers, which is helpful for the committee's report, but we are halfway through our time and only three committee members have asked questions, so far. I will take a brief answer from Gary Gillespie before we move to questions from the other three members.

Gary Gillespie: I will just make the point that social enterprises are often considered to operate as not-for-profit organisations, but many operate on a for-profit basis. They tend to be charities, and their profits are reinvested in their local communities or in assets. There may be something in that. The social enterprise census is good for giving us a flavour of that. There are now more than 1,000 social enterprises in Scotland, which range from housing associations to really small enterprises, and they employ approximately 100,000 people, overall.

The Deputy Convener: Thank you. The full answers that we are getting are helpful, but I want to give all the committee members an equal chance. Gillian Martin has a few questions.

Gillian Martin: Dean Lockhart alluded in his questions to the relationship between the Scottish Government and the UK Government on the industrial strategy. As you will know, cabinet secretary, we had Greg Clark in front of us a few weeks ago. He indicated that there had been constructive engagement with the Scottish Government around the industrial strategy. I asked him some questions about the impact of future trade deals post-Brexit, in particular on the protected geographical indications that currently apply to Scottish products. He did not have any particular answers in that regard, although it was pointed out to him how important the indications are to the Scottish economy. What conversations have you had on that issue with the UK Government? How far have you stressed the importance of protected geographical indications to the Scottish economy?

Keith Brown: Our conversations with the UK Government on those issues have tended to take place through Liam Fox, rather than with Greg Clark. Greg Clark is right to say that the discussion has been largely constructive with him in particular, although it has gone up and down. However, the discussion has been much less constructive in relation to trade and the protected geographical indications that are, as you say, crucial to the economy, whether they apply to whisky, smoked salmon or Arbroath smokies.

We are starting to hear things about the requirements of the US in a trade deal with the UK, which might include having to give up some of those protected geographical indications. I think that the US uses the phrase "intellectual property" rather than taking the approach of the EU. We want to stick with the current EU protections. I know that that is a matter of major concern to some of the trade unions that I met recently to discuss the issue. We have raised the matter directly in writing with Liam Fox. I am happy to let the committee have a copy of that correspondence.

Gillian Martin: If I heard you correctly, you said that the future industrial strategy does not include oil and gas. Food and drink does not feature in the trade deal that is under way with Hong Kong. Are the two major strengths in Scotland's economy being taken into consideration as a priority for future post-Brexit trade deals? Are you getting any indication from Liam Fox that they will be front and centre of any trade deals?

Keith Brown: I am afraid that I am not. That is not just from interactions with Liam Fox; it is also to do with the general confusion about Brexit and when deals will be struck. I have heard this week that Liam Fox has said that there could be secret discussions with the US about a trade deal. That is not the way to do business. We have to know what is going on, and that our vital industries are being protected.

The biggest food export from Scotland is, of course, salmon and the biggest drink export is whisky. However, they are also the biggest food and drink exports from the whole UK. They are crucial. We have just seen a new Macallan whisky distillery being opened with £140 million of investment. That will have a big impact on the economy. If people are allowed to produce copies of such products at a fraction of the price, that will fundamentally undermine our trade.

We do not have assurances. I got an e-mail about the UK Trade Bill when I was sitting in the SNP conference. That is no way to tell the Scottish Government what the Trade Bill will include—although, of course, it does not include much. We are not having the discussions on the subject that we would like to have with the UK Government. The situation in that respect is much less satisfactory than the discussions that we are having with Greg Clark on the industrial strategy. I met him just after the committee spoke with him.

Gillian Martin: In answer to one of my questions, Greg Clark said that a lot of the things that I was asking about are

"some way down the road",—[*Official Report*, *Economy, Jobs and Fair Work Committee*, 19 April 2018; c 14.]

but we are only 10 months away from Brexit. What impact could that uncertainty have on Scotland's economy?

Keith Brown: A cursory read of the newspapers on any day tells us that Brexit is already having an impact. People in industries that are doing well, but are uncertain about the future, are deferring investment decisions, and European agencies are being relocated outwith the UK. If Brexit touches on huge parts of the Scottish economy such as whisky and other food and drink, it could have a major impact.

On the idea that it is all still some way down the line, I point out that we are only 10 months away from Brexit. I do not know how much further down the line we can get without some clarity. It will not be possible to make trade deals during a transition period because we will still technically be part of the EU.

The uncertainty is not good. For example, I heard from the Investment Association, which is the umbrella organisation for the financial sector, that it was losing jobs as long as a year ago. It is not so much about the jobs that have been lost from here as it is about the jobs that would have come here but have been established in France, Germany and elsewhere.

We need clarity about trade. The idea that it can wait until we are further down the line is not good enough.

Gillian Martin: I will move on from that because I have a couple of questions on different themes. The Scottish national investment bank has come up in conversation with many of the people who have been in front of the committee during our inquiry. How will the Scottish national investment bank be used to promote inclusive growth, tackle regional disparities, encourage more female entrepreneurs and promote fair work practices?

Keith Brown: It can do all those things. It will be mission-centred. The Scottish ministers will establish missions for the bank. Mariana Mazzucato, who is an adviser to the First Minister and the Council of Economic Advisers, and a prominent adviser to the UK Government, has been strong on that point. In fact, we could say that she has been the architect of the proposals coming forward from Benny Higgins on the Scottish national investment bank.

It is possible and desirable for the Scottish national investment bank to achieve other goals than just straightforward economic growth, whether that be greater opportunities for women's enterprise or for fair work.

Crucially, the biggest impact from the investment bank will be its ability to shape and maximise markets in Scotland. It can look right across the supply chain and decide to invest in different parts of it. There is no reason why it cannot or should not make decisions that will maximise inclusive growth and fair work practices by focusing on higher paid sectors in which the knowledge economy is important. Those functions will be developed as we go forward with the national investment bank.

Sam Anson has been following the investment bank right the way through; perhaps the committee would like a quick comment from him.

10:30

Sam Anson (Scottish Government): Although it will be for the board and the management team of the bank to determine its investment strategy, it will be for ministers to set the strategic framework within which those investments will sit. We expect ministers to engage widely on the strategic framework and to consult stakeholders from across the landscape. Importantly, we expect the framework to be consistent with broader Scottish Government economic policy, which covers all the different elements of inclusive growth.

In relation to the reporting framework for the board to report back into Government, thought will be given to the range of indicators that will be used to determine whether the bank has been successful or otherwise. Those will not be just about financial return, but will include broader social and economic criteria. There will be plenty of opportunities to lock such criteria into the performance of the bank.

Gillian Martin: Mention has been made of medium-sized businesses. We have many small and medium-sized enterprises and the big gap that exists in access to finance and business support comes up time and again: a company gets access to a lot of support when it is starting out or when it has a certain level of turnover, but there is a gap in the middle. Will the Scottish national investment bank plug that gap, which—particularly since the financial crash and the banking crisis—means that such businesses are not getting financial support or access to lending from high street banks?

Keith Brown: Certainly. I think that it can play quite a big role in that regard, and not just when it comes to big projects to develop the infrastructure to service a market. As you will know from the implementation plan, we are considering the possibility of different schemes that we currently run being developed under the bank and of the bank's offer including being the first port of call for finance.

There is some controversy—or, at least, there are different views—on the availability of finance. The banks will say that businesses do not have an appetite for the finance that they are willing to make available, partly because of an inhibition since the financial crash, but when we talk to businesses, they say that they still find it hard to get the right finance at the right price and on the right scale. The national investment bank could help with that.

We will look to rationalise the offer that we make with regard to finance. The bank will be less involved in business support, but providing access to finance will be a fundamental part of its role.

Gillian Martin: I will move on to the existing barriers to the participation of women, in particular, in the economy, whether those be barriers to setting up in business or barriers in work, such as the gender pay gap. Greater participation of women in the economy has been highlighted as a big missed economic opportunity for Scotland. We have heard, for example, that Scottish Enterprise does not adopt a different strategy when it deals with women-led businesses, despite the evidence that shows that the adoption of a different approach to working with female entrepreneurs can help to unlock their potential.

What more could be done with the enterprise agencies to tackle those barriers and to unleash the potential of women-led businesses?

Keith Brown: A number of factors have been mentioned in the way that people approach women's enterprise, including unconscious bias. I have done some work in relation to the work that Women's Enterprise Scotland has done, not least in the context of the military—with spouses of serving military personnel, it has taken a very different approach from the approach that is taken by some enterprise organisations that try to help the general population.

It is important that we listen. Women's Enterprise Scotland is led by somebody who is very experienced in this area. If it can point to ways in which the offer that is available to, and the dialogue that is held with, women should be changed to better encourage women's participation in the economy, we should act on those suggestions. It Is a question, first, of such organisations saying to us, "This is how we think you could change your approach and have an impact." That should be the starting point. The First Minister has said a number of times that, if the number of women who establish businesses was the same as the number of men who establish businesses, there would be a phenomenal change in Scotland's GDP. It is an untapped resource.

If there is more that we can do in addition to what we are already doing in how we go about that, I would be very receptive to hearing about it.

Gillian Martin: We have just talked about the enterprise agencies and how they can do things differently, including seeking advice from agencies such as Women's Enterprise Scotland. Is that something that the Scottish national investment bank could do, with regard to access to finance rather than support?

Keith Brown: Yes, it could have that role. As Sam Anson mentioned, it would be for ministers to set the framework and establish the missions for the bank. It would be perfectly legitimate to have the mission of increasing the number of women in business and setting up their own enterprises. It is not just about the Scottish Government—business gateway has an important role to play at local authority level.

Gary Gillespie: Can I add to that?

The Deputy Convener: Please be very quick.

Gary Gillespie: Professor Sara Carter presented good evidence at our inclusive growth conference that women-led enterprises are as successful as men-led enterprises, but they are undercapitalised at the start—when you adjust for that, women-led enterprises are just as successful. There may be something about patient capital that is required in the different formats.

Jamie Halcro Johnston (Highlands and Islands) (Con): I will ask about regional variations, but before I do, I want to go back to what you said earlier about successful Government policies or policies that have had an impact. Given that some of the purpose targets have not been met and may not be met, do you have an opinion on some of the initiatives over the last 10 or 11 years that you, or previous cabinet secretaries for the economy, have introduced, that have not worked and how you might have done those differently?

Keith Brown: I am not going to criticise my predecessors.

Jamie Halcro Johnston: Perhaps you could say how you might have improved on their work.

Keith Brown: It is important to establish targets the achievement of which you have control over. As I mentioned before, and as Greg Clark has conceded, there are two Governments at work in the Scottish economy and if you set a target that you alone do not have responsibility for achieving, that presents a difficulty. We should be very careful that, when we establish a target, we know the different organisations—sometimes that will include local government and sometimes it will be the UK Government—that are responsible.

I cannot think of particular initiatives that I would say were wrong.

Jamie Halcro Johnston: The suggestion is that you may not have set a target for economic growth.

Keith Brown: It is perfectly legitimate for Governments to set targets for economic growth—indeed it is desirable to do so—but a greater appreciation of the factors that will contribute to that and the extent to which the Government can be responsible for achieving it is also important.

Jamie Halcro Johnston: Earlier, you talked about the UK economy and how it is focused on the south-east of England. I am a Highlands and Islands MSP and some people in my region think that the central belt of Scotland gets too much focus. Regional development is very important, so how will the Scottish Government's economic policy benefit the regions in the next few years?

Keith Brown: The most obvious example, which is a compliment to Highlands and Islands Enterprise, is the establishment of the south of Scotland agency. That recognises the need that has been felt for some time for a particular focus on the south of Scotland, given that even in the south of Scotland, the Borders is not the same as Dumfries and Galloway. The remit of the new body includes involvement in social and community initiatives. As the member will know, the success of Highlands and Islands Enterprise relates not just to businesses and jobs, but to establishing the capacity for people to start up businesses, which has sometimes meant involvement in the cultural and social spaces, too.

Incidentally, there is a perception that Scottish Enterprise cannot do that, but it is not true—Scottish Enterprise is perfectly able to do that, too.

Beyond that, in regional development, we have tried to be very focused in our infrastructure works over the past 10 years, to ensure that it is not just the central belt that benefits. For example, the Borders railway is the biggest new piece of railway infrastructure in the UK for over 100 years. The two biggest road projects that we have are the A9 and the A96 dualling projects, at a cost of potentially £3 billion each; that dwarfs the cost of even the Queensferry crossing, which was less than half of one of those projects. There have also been important rail improvements in the Highlands and between Aberdeen and Inverness.

Beyond them, the biggest issue in the area will be the shared prosperity fund. What will replace the funds from the EU that have been crucial in supporting businesses and skills development in the Highlands and other parts of the country, such as the south of Scotland and Dumfries and Galloway? We do not know that, even 10 months out, and that is already starting to cause confusion and uncertainty. I hope to work with Greg Clark to get to the bottom of that. That will be very important for regional development in Scotland.

Jamie Halcro Johnston: You mentioned the importance of small businesses. The Federation of Small Businesses Scotland highlighted Orkney's 79 small businesses per 1,000 adults, which is a higher percentage than that in other parts of Scotland. Small businesses, particularly if they are in the tourism sector, but also more widely than that, are very much affected by the infrastructure around them, whether that is broadband or transport infrastructure. How can the Government ensure that projects that have been discussed, such as the northern isles road equivalent tariff scheme, can be delivered more quickly? I appreciate that you are not likely to make an announcement on that today, but we in the northern isles have waited for a considerable time for the RET to be introduced, and the reliability of broadband infrastructure there is still very sporadic. How can we ensure that such projects or schemes can be introduced more quickly?

Keith Brown: If the RET was implemented in the same way as for the Western Isles, it would be counterproductive for Shetland—it might be beneficial for Orkney, but it would be much less beneficial for Shetland—so there is some sensitivity about how that can be done. Despite the fact that the RET has not been introduced yet, as you said, other measures have been taken, not least in this year's budget, to improve the situation in the affordability of fares in the northern isles. The question is really for the Minister for Transport and the Islands, Humza Yousaf.

Broadband is really a question for the Cabinet Secretary for Rural Economy and Connectivity, Fergus Ewing, but you made a very important point. We know that, if rural areas do not have connectivity through transport links, the ability to have a digital or virtual link—whether for employment, education or health—is crucial. Through the R100 programme, we are trying to ensure that every single business and individual in Scotland is connected to superfast broadband by 2021—that means a speed of 30 megabits per second, which is three times the speed that the UK Government wants to achieve in England and Wales. Superfast broadband is happening, and the coverage is high up in the 90 per cents now, but the R100 programme has to be rolled out, and Fergus Ewing has been keen to say, "Let's do rural first; it needs it most. Let's not always focus on the urban areas."

I would be happy to come back to the committee in writing on the situation with the RET. Humza Yousaf will be able to tell me about that.

Jamie Halcro Johnston: That would be helpful.

A number of organisations have talked about the skills gap. Which areas are you particularly focused on? Which representative bodies or sectors have expressed concern that the skills needs of the future are not being met and may not be met?

Keith Brown: It is important to distinguish between the skills gap and the labour gap. There are labour shortages and demands in certain areas that you will be very familiar with and concerned about, such as hospitality and agriculture, and there are digital skills gaps and skills gaps generally in some of the biblical trades. We are trying to address them through apprenticeships.

I invite Hugh McAloon to say a few words, as that is his area of expertise.

Hugh McAloon (Scottish Government): In looking into where skills gaps might emerge, it is important that we have a dynamic approach, because the labour market is changing a lot, and we are increasingly starting to look towards the existing workforce. Currently, most of our interventions are focused on young people. It is right to continue to focus on them, and it certainly has been right to do so with higher unemployment.

Quite a lot of work is being done between us, Skills Development Scotland and the Scottish Further and Higher Education Funding Council on aligning skills plans. The resource that we have has been deployed through two agencies, and there are very different approaches. There is institutional funding through colleges and universities and work-based learning through the apprenticeship programme. Very different forms of training are involved, but it is still critical that we do not duplicate in some areas and underserve other areas.

10:45

As the economy moves towards different sectors and as demand moves, it is important to keep as close as possible an alignment with what employers and industry need, so that we are not in a situation in which young people coming into the labour market, or those seeking to transition, go on courses that do not actually fit with the demand in the labour market and we therefore have skills shortages. That is a tough job, and it is a bit of a holy grail in this area. It is really important that we have the two agencies taking things forward together, thinking about all the labour market information that is at their disposal, planning for a horizon that is sensible and then executing that plan and reviewing it together.

Looking much further forward, lots of people speculate about the sort of labour market that we will have in 10 or 15 years, but a lot of things could happen in that time. If we look back 10 years, none of us was sitting with smartphones in our pockets, but they are now an intrinsic part of how some people do their jobs. Such things are maybe harder to predict. However, we can look at certain things. A high proportion of the workforce of 20 years from now is already in the workforce. People who are in their 30s and 40s are already in the labour market. If there are going to be changes, the issue for them is about support for people to transition. The cabinet secretary has spoken about a just transition around low carbon, but that sort of—

Jamie Halcro Johnston: I am sorry to interrupt, but I am conscious of the time. Would you therefore suggest that a larger percentage of the budget for training and education should be focused on post-24s transitioning and people reskilling and moving between sectors?

Hugh McAloon: It is about ensuring that our support and funding are focused where they are most needed. If the demand is for more of a focus on the existing workforce, we have to consider our investment in that. However, we cannot ever be complacent about youth unemployment, although we have had a real drop in it—I was around when it was 23 per cent and it has gone down to 10 per cent today. We cannot be complacent about that because, every year, about another 50,000 kids come in, from school, college or university. It is about getting that balance right, which is challenging. One of the big labour market challenges that we face is how we support the existing workforce to maintain its levels of income and enhance productivity in a very dynamic-looking future labour market.

The Deputy Convener: Dean Lockhart has a quick supplementary question.

Dean Lockhart: It is actually a supplementary to one of Gordon MacDonald's questions, so I can come in later.

The Deputy Convener: Okay. I will hand over to Gordon MacDonald now.

Gordon MacDonald (Edinburgh Pentlands) (SNP): I am glad that Dean Lockhart knows what I am going to say.

On the point about reskilling the workforce, the cabinet secretary said that unemployment levels are at near-record lows, but what about disabled workers? Employment levels among disabled workers are around 43 per cent. What is happening to support them and to tackle inequality in general?

Keith Brown: That is a very good point that the Parliament will debate this afternoon. It is one area in which we have not done as much as we should have done. We have an ambitious target to halve that figure. To an extent, we should be helped in that by the change in procurement rules for supported businesses, for which there is now a broader definition under European regulations. That work is being taken forward by Jeane Freeman and, in my portfolio, by Jamie Hepburn. There is a great deal more that we have to do. We have to try to concentrate on people's abilities rather than their disabilities so that we have a clear idea of what work they can undertake and ensure that workplaces are as receptive as possible to them.

This week, the UK Government has moved to reduce the protected places scheme, which could put another 660 people with disabilities out of work. That would be counterproductive, and I think that representations are being made to the UK Government to try to avoid that. Nobody has done as well as they could have done. There is still a lot of work to do on gender issues in the workplace and issues for black and minority ethnic groups, but we have made major strides on those. However, we have a lot more to do on people with disabilities.

Gordon MacDonald: I will move on to my questions about the agency support that is out there for SMEs. The Scottish Government has identified six growth sectors, ranging from food and drink to life sciences. What impact has that focus had on Scotland's economic performance?

Keith Brown: The impact has been important. For example, there has been a real focus on the food and drink sector, in which we have seen exponential growth over the past 10 years. I mentioned last night's opening of the new distillery in Moray, but new distilleries are cropping up all over the place; Diageo proposes one for Brora and one in Argyll and Bute. That focus on the food and drink sector has been important, but we want to see a sharpening of the focus in terms of what geographies we are going after, allied to the sectors that we have.

We also have a focus on manufacturing. The establishment of the national manufacturing institute for Scotland is important for giving us a focus on an area of the economy that, whether in Scotland, the UK or other countries, we have seen neglected. We now expect many things that we use to be produced elsewhere, but I do not think that we should accept that; the First Minister said that, too, in the programme for government.

The focus on those sectors can have a very beneficial impact, as has been demonstrated by the food and drink sector and some of the fintech developments in the financial sector. The most obvious measure of that impact is the growth in the food and drink sector.

Gordon MacDonald: You have touched on areas that are slightly outside the growth areas, but what support is available to SMEs whose businesses are outwith those growth areas?

Keith Brown: That is a good question. We are seeing a changing landscape through the enterprise and skills review, the changes to Scottish Enterprise with the establishment of the south of Scotland agency and some encouraging developments such as the one in Ayrshire, where the three councils have come together in an economic partnership to look afresh at how they can provide business support in their area.

With regard to support possibly not being available, one of the criticisms that I have seen in previous evidence to the committee is that becoming an account managed company with Scottish Enterprise is too difficult or exclusive. We do not want that to happen; we want businesses to get the support that they deserve. A lot of businesses just ask us to get out of the way so that they can get on and do what they want to do, which is fine. However, we want to provide support as widely as possible for those businesses that need support.

This is more Mary McAllan's area, but I reassure the committee that we are looking at the evidence that it has taken to see whether there are points of action for us regarding business support.

Gordon MacDonald: We have talked a bit this morning about innovation and the funding that is in place; we also have the innovation centres. Scotland continues to come up with innovations and inventions, ranging from big data and fintech, to the life sciences. However, again, outwith those known growth areas, what support is in place for university spin-offs or for new, innovative businesses that are not in the growth sectors?

Keith Brown: There is support. One of the criticisms of the universities is that they have been very good at developing spin-offs but not very good at developing scale-ups. The universities sometimes find it hard to let go when, for example, the private sector could take things to a different level through an equity share. The Scottish funding council is now a partner with the enterprise boards and is represented on the enterprise and skills strategic board, so that discussion is much better. We can see early signs of that; Nora Senior might have told you that when she appeared before the committee. The SFC is sitting next to Scottish Enterprise, Highlands and Islands Enterprise and so on and they can have those discussions; I think that there is a much greater appreciation of that in the university sector. We know about Heriot-Watt University's role, but the University of Edinburgh is a hugely powerful economic engine in terms of what it does; in my area, the University of Stirling has had the innovation park for a long time now.

There is greater appreciation of the importance of trying to maximise the economic impact of the areas to which you referred. However, people should not feel that there are gaps in support because they are not in a sector that has been highlighted, because there should be support for all businesses. I would be keen to hear about such cases to see how we can address them.

Gordon MacDonald: Is there a role for the Scottish national investment bank in supporting those innovative businesses?

Keith Brown: I am conscious that the list of demands on a body that is not yet even established grows day by day—but yes, there is a role, particularly in relation to the scale-up idea that has been talked about. As was mentioned earlier, we do not want companies that have done well and innovated to fly off elsewhere. We want the jobs and the benefits that come with such companies to be scaled up here. I mentioned that the national investment bank should be involved in shaping markets—if that means expanding the indigenous Scottish presence in markets, that has to be a good thing.

Dean Lockhart: The plan is for the Scottish national investment bank to inject long-term capital into the economy, and recommendations 6 and 13 of the implementation plan talk about a 10 to 15 year horizon by which the bank will be judged. Can the cabinet secretary confirm that the bank will continue to use sterling as its currency for that period of 10 to 15 years?

Keith Brown: That would give me the job of trying to establish certainty on a 10 to 15-year period, which nobody else can do. Who knows what changes will happen over that time? The bank will work with sterling to begin with. Beyond that, who can say what currency changes will be made? I certainly cannot; I am not a currency expert.

The Deputy Convener: Despite the fact that only six committee members are here, we seem to have filled up our time quite well. That is partly because we have had good questions and answers, so I thank the cabinet secretary and his team. Would you like to make any final comments?

Keith Brown: I will just say something in relation to the evidence that the committee has taken. We will wait and see what recommendations the committee wants to make, but we are looking at the issue just now and we might make changes in the meantime. I thank the committee for its work.

The Deputy Convener: Thank you for your time. I suspend the meeting to allow the witnesses to leave.

10:56

Meeting suspended.

10:57

On resuming—

Subordinate Legislation

Bankruptcy Fees (Scotland) Regulations 2018 (SSI 2018/127)

The Deputy Convener: Agenda item 3 is consideration of the Bankruptcy Fees (Scotland) Regulations 2018 (SSI 2018/127). The committee will recall that we wrote to the Minister for Business, Innovation and Energy outlining our concerns about the 2017 regulations, and that instrument was subsequently withdrawn. Our general concerns at that time were the lack of transparent, consistent and understandable processes for setting fees, clarity over the extent of cost recovery and the impact of fee increases on stakeholders.

We have now received views on the 2018 iteration of the regulations from the Institute of Chartered Accountants of Scotland, Alan McIntosh and Money Advice Scotland. It might be worth noting that the current regulations will not take forward a number of the fee increases that had been proposed in the 2017 regulations. The bankruptcy fees that are charged to debtors will not change and there will be an increase in the fee that is charged to a creditor to apply for a debtor's bankruptcy. In brief, the Accountant in Bankruptcy has gone some way to addressing the committee's concerns about the 2017 regulations.

Does any member have any substantive issues that they wish to raise on the regulations? I am not hearing any comments from members, so are we content for the instrument to come into force?

Members *indicated agreement.*

The Deputy Convener: As we agreed at our previous meeting, we will also draft a response to the minister, and we will consider that in private.

10:59

Meeting continued in private until 11:50.

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