



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Economy, Energy and Fair Work Committee

**Tuesday 18 September 2018**

**Session 5**



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**Tuesday 18 September 2018**

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**ECONOMY, ENERGY AND FAIR WORK COMMITTEE**  
**25<sup>th</sup> 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)  
Angela Constance (Almond Valley) (SNP)  
\*Jamie Halcro Johnston (Highlands and Islands) (Con)  
Dean Lockhart (Mid Scotland and Fife) (Con)  
\*Gordon MacDonald (Edinburgh Pentlands) (SNP)  
Andy Wightman (Lothian) (Green)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

John Downie (Scottish Council for Voluntary Organisations)  
Rob Gowans (Citizens Advice Scotland)  
Jamie Hepburn (Minister for Business, Fair Work and Skills)  
Matt Lancashire (Scottish Council for Development and Industry)  
Helen Martin (Scottish Trades Union Congress)  
Gordon McGuinness (Skills Development Scotland)  
Kirsty McHugh (Employment Related Services Association)

**CLERK TO THE COMMITTEE**

Alison Walker

**LOCATION**

The David Livingstone Room (CR6)



## Scottish Parliament

### Economy, Energy and Fair Work Committee

*Tuesday 18 September 2018*

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

### Decision on Taking Business in Private

**The Convener (Gordon Lindhurst):** Good morning and welcome to the 25th meeting in 2018 of the Economy, Energy and Fair Work Committee. I ask everyone present to turn off or turn to silent any electronic devices, please. We have received apologies from Angela Constance, Dean Lockhart and Andy Wightman.

Agenda item 1 is a decision by the committee whether to take items 5 and 6 in private. Do we agree to take those items in private?

**Members indicated agreement.**

## Pre-budget Scrutiny 2019-20

09:31

**The Convener:** Item 2 is draft budget scrutiny for 2019-20. We have with us today a number of witnesses. Helen Martin is the assistant general secretary of the Scottish Trades Union Congress, Rob Gowans is the policy officer at Citizens Advice Scotland, Gordon McGuinness is the director of industry and enterprise at Skills Development Scotland and—last but not least—Matt Lancashire is the director of policy and public affairs for the Scottish Council for Development and Industry. I welcome all four of you.

Without further ado, John Mason will start the questions for our panel.

**John Mason (Glasgow Shettleston) (SNP):** I will start by focusing on employment support services. I understand that the budget for those services has been somewhat reduced from what it was in past years, when it was all controlled by Westminster. Do you think that the budget is sufficient for what we are trying to do? I understand that fair start Scotland is targeting 38,000 people. Do more people out there need support? How is that all going to work on the financial side?

**The Convener:** Who would like to start off? The sound system will be operated by the broadcasting desk, so there is no need to operate any buttons—I think you have all been here before.

**Gordon McGuinness (Skills Development Scotland):** I will start. You are right about the budget for those services—there has been a reduction. It is still in the region of £96 million, and the Government is confident, having gone to procurement, that it can deliver those services within the programme.

You have to look at the entire picture across the Government's employability skills pipeline, and there are five stages to that. It is not just the £96 million that plays into that space; there is the employability fund, which we deliver on behalf of the Government, and there are significant contributions from local authorities as well, which are non-statutory services that will differ from location to location, depending on the council's ambitions to address unemployment.

The other issue to recognise is that unemployment levels have fallen and it is probably wrong to make a comparison year on year when the nature of unemployment is changing. The Government is strongly focused on helping those with disabilities and those with protected characteristics, which is to be welcomed. It is early days in the launch of the new programme, so time

will tell, but it is important to have good monitoring arrangements, good publication of data and a good-quality service.

**John Mason:** It sounds as though you are not too concerned about the budget.

**Gordon McGuinness:** Time will tell, and it is still early days. It is a voluntary programme, so there is no push through the system or compulsion for people to enter it. We need to keep alert and have good management information to guide the system, and we need to think about the range of clients who are entering the programme. The employability pipeline is quite broad and a range of initiatives and measures come into it, not just the new programme.

**Matt Lancashire (Scottish Council for Development and Industry):** I will echo some of Gordon McGuinness's points. The £96 million should not be seen in isolation, considering the total spend on employability skills in Scotland. I forget the name of the report, but it said that the spend is hundreds of millions of pounds. The question is how we can connect the services to reduce duplication and look to single outcomes in socialisation, employability, housing and all the different areas that employability skills touch on to support an individual.

The other aspect of the £96 million budget that is quite interesting is the quality of service that is provided, but it is too early to tell that now for fair start Scotland. If you reduce the money, you effectively reduce the money that is going to the service providers themselves, which will potentially influence the type of service that they can offer. That might be a point to focus on when we get more data from the service providers about their outcomes, such as how many people are passing through the service and how many people had six months' employment at the end of that.

It is a bit too early to tell, but any reduction in budget puts pressure on the service provider to do something different and more efficient to enable the service to be delivered.

**Helen Martin (Scottish Trades Union Congress):** We are a bit more concerned about the reduction in the budget. We recognise that the labour market is quite tight at the minute, which creates a positive environment in some ways but also creates a challenge because the employability services are now looking to place people who are quite difficult to place and who historically have faced quite a lot of barriers to getting into employment. We want to see really good outcomes for disabled workers, because, given that there is such a low level of unemployment, there is no reason why there should be such a large employment gap for disabled workers.

That sort of support requires more budget rather than less, and it potentially creates challenges for the providers in the way that Matt Lancashire described. They are potentially having to deal with more complex things and need to be innovative, and it is difficult for them to do that when their budget is falling.

**John Mason:** Are you happy with the model? It seems to me, from reading the committee papers, that there is an assumption that, if we just put a few measures in place, any disabled person could do almost any job—I am slightly overstating the position. However, some people face huge hurdles and will not be able to work a 35-hour week or even a 16-hour week. Do you think there is enough money primarily to support that approach?

**Helen Martin:** There are quite a lot of issues with how the system works and counts success. We would like to see a slightly more person-centred approach that takes more cognisance of what a successful outcome for disabled workers might look like. We also think that there is way too much emphasis on preparing the person for work rather than preparing the work for the person. Our disabled workers committee constantly says that there should be more emphasis on ensuring that employers understand their obligations and are ready to provide the support that is needed for a disabled person going into the workplace instead of just helping a disabled worker to work on their curriculum vitae or interview techniques. The system is too one-sided, and there needs to be an emphasis in the system on the quality of the employers' work and support.

**John Mason:** I think that one of my colleagues will ask about outcomes later, so we will probably come back to that. Mr Gowans, do you want to say anything at this stage?

**Rob Gowans (Citizens Advice Scotland):** I do not have a great deal to add. Other organisations will be better placed to say whether the budget is sufficient to provide employment services.

I echo the points that have been made about the importance of the system being joined up well with other things. Fair start Scotland is certainly not the only employment programme provided by the third sector or the public sector in Scotland, and we should make sure that they complement each other well. I also echo some of the points that have been made about measuring success. You should measure sustained job outcomes, but it is important to capture softer outcomes as well, given that the people who are involved with the programme are quite far from the labour market. Measurements other than getting people into work could be used in determining success.

**John Mason:** The other issue that I want to touch on is the fact that this is going to be a

voluntary programme. In the past, the programme was compulsory and there was the potential for sanctions, which there appears not to be now. Are you all comfortable with the new approach?

**Matt Lancashire:** Yes. Our members are comfortable with the approach and support it. The interim programmes, work first and work able, were voluntary in nature, and it is revealing that only 60 per cent of the people who volunteered to go on the work first programme actually took up the programme—40 per cent of people had dropped out of the programme entirely before they had even got through a service provider's door. That is an issue. It may be that they had found work—that would be excellent. That would be great news and what we want to hear. That could be one reason for their having dropped out, or it could have been down to a change in circumstances—I do not know. However, I think that there needs to be more investigation of that slip-off whereby only 60 per cent of the people who volunteered actually started the programme. Where have the other 40 per cent gone? Have they found a job? Are they doing something else, or have they not been engaged by the service provider or the services on offer? That is where there needs to be a bit of focus.

**Gordon McGuinness:** I think that the issue relates to people not getting sufficient information to make informed decisions about what direction they are going to go in. When we talk about the journey from welfare back into work, we need to understand where people are coming from. They are perhaps coming from a not very lucrative financial position, but the income was regular and guaranteed. Lots of employment has been of a non-standard type, and, when people move towards the labour market, they need to make an informed decision about what that means for their financial security. I think that that plays out in some of the slip-off in referrals to the programme.

**The Convener:** Rob Gowans talked about sustained job outcomes. Is that the best way to look at it? Helen Martin touched on some of the issues surrounding getting people back into work. One person might be able to go from having no job into one in which they work 30 hours a week. Someone else might not be able to commit to that and might work 10 hours a week—it may depend on the person or the job. Is it better to look for progress being made incrementally, step by step, depending on the individual or the job? How should we approach it?

**Helen Martin:** That is a pretty difficult question. Some workers find it challenging to go straight into a 16-hours-a-week role, particularly if they have long-term disabilities or health problems. That can be quite difficult to do. At the same time, we do not want to create a situation in which any contract is

considered a successful outcome for a worker. In the labour market, we are seeing more and more instances of very low-hours contracts being offered, and we need to consider how people can keep themselves in a financially stable position and out of poverty. We cannot have employability services driving people into low-wage, low-hours jobs that leave them in poverty and in a worse position than before, because that cannot be a successful outcome.

There is a real tension around designing a system with outcomes that look effective statistically. For the reasons that we have discussed, we would caution against driving everything from a targeted approach and instead suggest that you look at what is a good outcome for a particular worker. You should make the outcomes person centred and get a bit of professionalism into the system. If the employability service says that it is successful and the workers themselves say that it is successful for them, that can be the measure of success rather than hitting statistical targets that have been set at the centre and applied rigidly in every case.

09:45

**The Convener:** Might it be partly to do with the fact that progress can be gradual in many things in life? Rather than people being told to take contracts with low hours, might a person-centred approach be taken, as you say, whereby people could build up their hours instead of going from no work into, say, a 30-hour week? Is that what we are talking about?

**Helen Martin:** That could be a successful outcome for some workers, but I worry that it can be difficult to build up hours in that way. Unions representing the retail sector, for example, have a lot of members who would love to work more hours, but they cannot get longer-hours contracts. Those people are already in work, and that is affecting their living standards and their ability to stay out of debt. We must be careful that our employability service does not drive those sorts of outcomes.

With the changes that we have seen in the labour market and the rise of the gig economy, there are now a lot of options that allow people to work a very small number of hours in lots of really interesting ways, but that does not necessarily mean that those people have a sustainable job outcome that keeps them out of poverty.

It is important to have an understanding of whether people are better or worse off financially by going into the labour market. I would like to live in a world in which people were able to do things that allowed them to go into work gradually, build up their hours and have the dignity that comes

with work. That would be really positive, but there needs to be some give in the system and more sustainable opportunities must be available to people. I worry that those opportunities are being closed down, particularly at the low-skilled end of the labour market.

**The Convener:** That is what I was wondering. If there are opportunities to increase a person's hours or work or to develop a job or a worker's skills, that is different from someone going in at a certain level and getting stuck there, although the answer may be to start there and then progress. It is about taking a long-term view instead of viewing what happens immediately as the outcome. That may take a bit longer but may ultimately be more successful.

**Matt Lancashire:** We need to look at the type of disability as well, because one disabled person's position can be very different from another's. A lot of people on the programmes present with alcohol issues and housing problems or have domestic abuse going on in their family. You are right to say that progression is very different for someone who is disabled and does not suffer all those other things happening in the background. A measure of progression is health and wellbeing. Can we create contracts in which we say that the person has not only a disability but all those other issues going on as well, therefore it is going to take a lot longer to get them into work than it would take to provide employment for someone who did not have those other issues attached to them?

On job outcomes, we need to get away from the idea that every disabled person is going into a zero-hours contract in some kind of death-star-approach business, because we are trying to drive responsible businesses in Scotland—that is a key part of what we are trying to channel as a society and a nation. That might not happen in some circumstances, but most of the service providers that SCDI and our members come across try hard to champion quality jobs and quality living standards.

The other aspect that keeps someone in a job is the ability to progress, which is key. When someone walks into a job, what skills are needed to avoid automation by artificial intelligence in the future? How do we provide those skills through work-based learning once someone is in post and past the first six months? We need to escape the idea that every person who is churned out of the programme walks into a terrible job in terrible conditions, because that is certainly not the case.

**Rob Gowans:** I echo the point that fair work is particularly important. We know from research that a bad job can, in some cases, be even worse for somebody's general and mental health than being unemployed. We would support the measuring of

outcomes on an individual basis. What works for some people does not work for others. A low-hours contract might be appropriate for some people, but it will not be appropriate in some cases—particularly if people are relying on it as their main source of income. Such things could be built into measuring the success of the programme alongside sustained job outcomes.

**Gordon McGuinness:** It is important to understand the working relationship with universal credit as a person progresses into it.

Universal credit was initially hailed as a safety net for people who were going back into the labour market, particularly in shorter-term jobs, that could be scaled back as their ability to work and earn increased. I am not an expert on universal credit, but I think we should probably examine how effective it is as it is rolled out and how effectively the agencies are working behind the system. Before the meeting, we were having a chat about the exchange of earnings rates and that type of thing. Could that be done in a more automated way that would not inconvenience the individual every time a check had to be made? It would be worth examining how universal credit operates in Scotland.

**Jackie Baillie (Dumbarton) (Lab):** That leads me on neatly to exploring the guarantee of fair work, on which Matt Lancashire gave a response—I was pleased to hear him speak about what some of the employers within the SCDI family do. Do we check the position across all the programmes, such as modern apprenticeships, the employability fund and fair start Scotland? Is it a general exhortation? Is grant that is given to providers conditional on securing jobs that guarantee fair work? How is that done? Is it just a matter of encouragement?

**Gordon McGuinness:** In terms of the modern apprenticeship programme and fair work, Scotland has maintained a very high policy line that there must be full-time employment that offers quality training. The legislation ties us to the United Kingdom Government's minimum wage; we are not able to insist on a living wage condition, and applying that level of conditionality would be the Government's call. I would caution against moving towards that. In some of the programmes and offers in which provision is funded through the Government, such as the commitment to early years childcare, there is a condition that a Scottish living wage has to be paid. However, in other sectors—in hospitality and parts of the food and drink sector—such a condition would probably significantly reduce the number of apprenticeship opportunities that were made available. There is a balance to be struck.

In England, we have seen apprenticeships that last 12 weeks and then the young person or adult



is back out on the street. That simply does not happen in Scotland. We have far better quality criteria—the providers and their staff monitor, analyse and make sure of that. Some of the written submissions refer to a revolving door. I am pretty confident that we do not have that, and that by and large the evaluation activity that takes place with individual customers points to the quality of their experience and the learning that they get. The sticking point is probably the minimum wage for apprenticeship programmes.

**Jackie Baillie:** It makes me slightly nervous that we seem to be underlining poverty pay in certain sectors. I get what you say about balance; nevertheless, I am slightly disturbed by that

**Helen Martin:** To be fair to Gordon McGuinness, I agree with some of what he says. I agree that the apprenticeship system in Scotland is of significantly better quality than the apprenticeship system in England. There are definitely some extremely poor outcomes in England, with very short, poor-quality programmes.

I think that we have done well in Scotland to maintain a high level of industry standards and decent qualifications that lead to something valuable for the young people. I do not agree with the idea that that means that there are no instances at all in which young people are trained as apprentices and then do not get a job with that employer at the end of the apprenticeship, with the employer going on to train the next young person. We have seen that in some construction firms in particular—I have heard construction industry professionals say that themselves. We need to guard against that, but it is quite difficult because, at the end of the day, the employer has to decide whether they are going to keep that young person on. Where we can, we need to encourage apprenticeships to be sustainable roles that lead to long-term stable employment for young people.

When we discuss fair work, we sometimes hear it being equated to the living wage and not very much else. We have a much higher ambition of what fair work actually means in the workplace and its role in enabling workers to shape their own work and have access to training and the sorts of contracts that they want—work that gives them a guaranteed income and is “decent”, from an International Labour Organization perspective.

I think that we have gone too far towards the position that the living wage is the only way to measure fair work. We have seen employers that say that they are living wage employers, only for the union to point out that union rates that were agreed two years ago were £2 or £3 above the living wage. The unions say that those employers are holding themselves up as living wage employers, but for a lot of workers it is actually a

pay cut. We need to be careful, unfortunately, about campaigns that come back to haunt us in negative ways—they are obscuring things and are being used as a badge of honour to push down on living standards and wages in an upsetting way.

**Matt Lancashire:** I was going to make this point later, but most successful businesses generate great public good—jobs, prosperity and cohesive communities—and as a nation we all reap the benefits of that. I think that the narrative of the old command-and-control type of business has changed recently and many businesses now realise the importance of maintaining trust with customers, employees and wider society, not least in a social media-driven world. Businesses are beginning to understand their workforces as a key to increasing productivity. AI and automation are one way of doing that, but it is people who really support increased productivity. Fairness in the workplace only enhances a business’s ability to increase productivity. The old command-and-control approach is probably starting to ease its way out of businesses. How do we encourage more responsible businesses to invest in Scotland, let alone enable the companies that are already here to behave responsibly? That is another part of the issue that we need to look at.

**Jackie Baillie:** Can I take us back to the budget, given that this session is part of our budget scrutiny process? We know the figures for fair start Scotland. How much is in the employability fund? Has it gone up? Has it gone down?

**Gordon McGuinness:** I cannot give you a figure off the top of my head, but it is holding at the same level as in the current year.

**Jackie Baillie:** It might be useful if you could provide us with that information, along with the historical information.

**Gordon McGuinness:** I will do that.

**Jackie Baillie:** I am also curious about local authority contributions. I guess that those contributions may have gone down, given the tight financial climate. Again, if you cannot give me that information just now, it would be great if you could provide us with it later.

**Gordon McGuinness:** It will vary from local authority to local authority. North Lanarkshire has put in a concerted effort on a growth agenda. Last week, I was in Moffat and at the south of Scotland agency; I was also in Dumfries and Galloway and the Borders. Dumfries and Galloway has a very strong access to training proposition. It has about 55 staff attached to that; the number is smaller when you flip into the Borders, but councils deliver services in different ways. One factor in that variation will be how local authorities have used European structural funds in the past, and we will

need to start thinking about how services will adapt to that level of funding no longer being there.

**Jackie Baillie:** Some of my colleagues will come on to explore that issue in more detail.

People complain that the apprenticeship levy is not transparent and that they do not know how much money there is. Can you give us any thoughts about that?

**Gordon McGuinness:** Mr Hepburn has never hidden his dissatisfaction with how the apprenticeship levy was introduced and, in particular, with its impact on the Scottish public sector, which also has to pay into it. A figure that sticks in my mind is that NHS Greater Glasgow and Clyde has contributed about £6 million to the levy, which is a significant amount. Given that public sector input, the net effect is that the money available for expenditure through the levy has reduced. The minister can probably give more detail about that.

10:00

Scotland has tried to maintain a stable system. We have touched on some of the flaws in the English system, where they have flipped and flopped on policy over a number of years. In the English system, the digital account looks good but a number of employers have been involved in a chase to try to claw back the levy. If they are then going to hire new staff, they will also pay more wages, so the environment is rather challenging for them. Scotland has stuck with a proven system. We used European structural funds to expand the programme and create foundation apprenticeships and graduate-level apprenticeships, on which we have had good feedback. That takes us back to a lot of the work that was done through the Wood report in putting a much stronger emphasis on work-based learning, as a number of our competitor countries have done.

A number of companies have been frustrated in trying to access to the levy. We have created a service that tries to maximise what individual companies can get from the levy in Scotland across the skills system. A huge number of nurses and social workers are trained in colleges. I appreciate that that is not additionality but we have to appreciate what we get back through the contributions to the skills and learning system in its totality.

**Jackie Baillie:** I was listening very carefully, but I did not hear a global sum in there. Could you write to the committee with an indication of that? Given that this is a new pot of money, I am also interested in whether all the money is additional,

or whether it has displaced existing training budgets in SDS or the Government more broadly.

**Gordon McGuinness:** At Government level, it has displaced the previous funding arrangements. I think that the Scottish Government is still working with Her Majesty's Revenue and Customs to attribute precisely how much is paid by Scottish employers for Scottish employees. That has not been easy, system-wise, but I will take the question back to Government colleagues and ask them to furnish you with the figure.

**Jackie Baillie:** Thank you. I have a final and very quick question. Were any of you involved in the design of fair start Scotland? I am not getting any engagement back from you, so perhaps you were not. However, if you were, what do you think still needs to be changed?

**Gordon McGuinness:** SDS assisted the Government. We contract managed the delivery of the work able Scotland and work first Scotland programmes through the transition period. It is too early for us to speak about the detail. The Scottish Government and the consultancy Cambridge Economic Policy Associates have done an interim evaluation with some of the client groups that we worked with last year. Positive messages have come back from that, with 60 per cent feeling better able to negotiate work and, if they have a disability, to declare that disability. We hope that some of the lessons learned from the systems that were developed and the spread of contractors in the new regional system—the contractors work in nine regions—will provide a lot of interesting information, so that we can compare and contrast what is working. The UK system tended to have a very big operational area with only two prime contractors. There will be learning that we can get from the system now, but that is being managed and procured by the Scottish Government itself.

**Matt Lancashire:** SCDI was not directly involved in the design work, but a number of its members were, through Kirsty McHugh and the committee that Employability Scotland ran. It was probably a different role back in the day, but I think that other service providers were involved through Employability Scotland.

**Jackie Baillie:** The convener has allowed me to sneak in a tiny little question. I am afraid that it is for you again, Gordon. The contracts for fair start Scotland are for three years. I understand that contracts for the employability fund are for one year. Why is there a difference? Surely promoting stability, whether in the voluntary sector or in the private sector, for any training provider would be a thoroughly good thing to do.

**Gordon McGuinness:** I would not disagree with that sentiment. We operate on an annual funding basis, hence we deliver contracts on that basis.

Through the commissioning process, we try work at the local level with the local authorities and the local employability partnerships to get the best fit through the employability fund. I do not think that we have seen significant shifts in provision on a year-to-year basis, but a quality assurance mechanism built into that process. Obviously, providers in particular, as this is their business, would look for contracts to be as long as possible.

**Jackie Baillie:** Do you retender each of those one-year contracts? Is that what I am hearing from you?

**Gordon McGuinness:** We go through the procurement process on an annual basis.

**Jackie Baillie:** Is there not a lost opportunity in all that retendering, which by and large involves the same companies, in terms of monitoring quality differently?

**Gordon McGuinness:** They are not necessarily the same companies, and the retendering is done through public contracts Scotland, so it is open and transparent, as it is legally obliged to be.

**Jackie Baillie:** It might be sensible to move to three years, but I will leave it at that.

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** The committee often looks at enterprise and skills agencies, which are obviously vital in the delivery of jobs and job quality down the line. If you had the opportunity to direct them, how would you use their budgets to improve job quality across Scotland?

Did I catch you out there?

**Gordon McGuinness:** I would probably include myself as a member of a skills agency, so I was going to let my colleagues have a go first.

**Helen Martin:** There is a very simple answer to that question. Job quality should be considered when whether to fund people to take on apprentices or any other training scheme is being considered. Currently, I do not think that there is any assessment of that in assessing how the schemes work. People get access to public funding to offer apprenticeship schemes without there being any consideration of how well they have done previously to support people to stay on and work and the job quality at the end of the process.

We know that frameworks exist in sectors in which job quality is routinely very low and that there is no consideration of whether it is appropriate to funnel public money in that way or of how we can incentivise a different way of working through the use of contracts and other forms of public money. We see business support routinely going to companies that have very low

outcomes. We have only to look at the grants for Amazon, for example.

It was positive that the First Minister talked differently about that this week. We could do a lot more in that space if we wanted to in order to ensure that every bit of public money that we have goes into supporting the type and quality of employment that we want to see in Scotland.

It is legitimate for us to have an interest in what happens in the workplace, because people's livelihoods and outcomes depend on what happens in a working day. As policy makers, we have stood back for too long from having such scrutiny of the workplace and left that as the domain of business, which can do whatever it wants.

**Colin Beattie:** Do you think that that has been an on-going deficiency in the system?

**Helen Martin:** Yes—absolutely. I am encouraged by some things that we have heard today and some of the approaches that have been taken in the Scottish Government's work in the past few years. However, for a very long time, it was very much a matter of any job will do. It really did not matter what type of job it was or whether a person was out on the street again six months or a year later. There were very poor outcomes for people.

That has caused great distrust of that type of work among low-paid workers. Even when people have found employment, the outcomes have been quite poor because the type of employment has not always been as good as it should be. There have been other types of employment—Matt Lancashire referred to that. It is not as if that is the only outcome that is available, but a large swathe of employment has been low paid and low quality. People then just revolve into low pay and unemployment, and that does not help them to get the life outcomes that they want.

**Rob Gowans:** We consider that it is important that the Government does as much as it can to promote fair and decent work, including through various programmes that it funds. To pick up on a point that was made earlier, that needs to go beyond pay, although payment of the living wage is very important. The misuse of zero-hours contracts can be included. As a result of the issues that citizens advice bureau clients come in for advice about, we have seen that the misuse of zero-hours contracts has caused hardship and difficulties for people enforcing their rights at work. There are other factors, such as whether employers pay people on time and whether people assert their basic rights at work. The Government should be promoting fair and decent work, and doing that through some of the programmes that it funds is a way to do so.

**Matt Lancashire:** I go back to what I said earlier about responsible businesses and the situation in Scotland changing. If we are talking about things leading to more conditionality in business support for quality jobs, we are already on that path anyway as businesses begin to change and begin to value their employees more in Scotland. It is no surprise that Governments listen in to those discussions about how we can create fairer and more equal quality jobs in the workplace. I think that businesses are ready to discuss that, to listen to those views, and to look at the rewards that there might be from that in respect of increased productivity. We cannot just nosedive straight into that area without a broader conversation with business to understand where we are now.

We also have to look at Scotland's place in the global economy, our competitiveness and our need not to try to deter investment in businesses in Scotland. The potential conditionality of business support does that. How do we strike a fine balance in that? We do not want to discourage business investment, and we want quality jobs. What conversation do we need to have without diving straight into conditionality in business support? That is what I am trying to put across.

**Gordon McGuinness:** There is a danger in taking a broad-brush approach to some of that stuff. The statistics that we have in the evidence from and the evaluation of the apprenticeship programme show a satisfaction level of around 86 per cent among those who have completed it. Those are 2016 figures; the exercise will be repeated this year. Four out of five apprentices were still in employment six months later and could report at least one career progression step. We think that the apprenticeship programme delivers a strong return for Scotland's economy and for the individuals who participate in it.

One of the targets for the south of Scotland agency will be to reach as many of the small to medium-sized companies in its area that are challenged with rurality and business development as possible. Obviously, we want the best results and the best commitment to fair work, but there is a balance to be struck in respect of where companies are on the journey, where they are picked up, and where we want to take them to.

We have worked with the Scottish Further and Higher Education Funding Council, Scottish Enterprise and Highlands and Islands Enterprise on the enterprise and skills review. Four missions from the strategic board have been committed to, one of which is on productivity, workplace innovation and new business models. We will work in partnership with the agencies on how to implement that. There is a strong reference to fair

work and the inclusive growth agenda that the Government is promoting.

**Colin Beattie:** I understand the positive aspects of someone getting a job and I realise that everybody has to start at the bottom and work their way up, but they have to see the opportunity for a clear progression into a decent-quality job.

10:15

**Gordon McGuinness:** A good number of those jobs are decent-quality ones. Earlier, Helen Martin referred to construction. A lot of the construction frameworks have industry rates that have been agreed with the trade unions. Ian Rogers of the Scottish Decorators Federation, for example, would probably take exception to what has been referred to because he drives a high-quality agenda. The federation wants the best young people in, and way in excess of what the apprenticeship pay is required to be is paid because it wants to attract suitable and good-calibre young people.

We need to look at the frameworks and how the qualifications are structured. We have developed the Scottish Apprenticeship Advisory Board, which is heavily populated by employers, and we are asking it to help us to progress the agenda—to progress not just things such as fair work, but equality and diversity—and then take ownership of the qualification standards.

**Colin Beattie:** The committee's recent work on European structural funds has highlighted the need for increased regional focus on economic development. How should enterprise and skills agencies use their budgets to address economic disparities between regions of Scotland?

**Gordon McGuinness:** We have done a lot of work with Scottish Enterprise on the regional partnership in the three Ayrshires and have worked with it on the Ayrshire growth deal. From an SDS perspective, we have tried to provide an evidence base and to understand what the anomalies are, where there are challenges, where there has been growth, and where there has been negative growth or much slower growth, and to commit resources behind the plans, such as city deals. We have also produced regional skills investment plans that are aligned to the city deals and the opportunities that they create. The plans that we have done for Edinburgh and the Lothians make great play of the bigger opportunities around data analysis and artificial intelligence. We can work with the agencies and local authorities in a range of ways.

**Matt Lancashire:** I suppose that judging the criteria for investment is about safeguarding jobs in a particular region, creating investment, the type and size of businesses in the area that we want to

invest in or to have in it, and the infrastructure. The regional partnership could have an impact in asking those questions of business and the wider community in those regions.

**Colin Beattie:** What role do you see local authorities having?

**Helen Martin:** Local authorities are key economic development agencies, but that role has been quite overlooked in recent years. At the same time as local authority funding has been pushed down, business rates relief has been prioritised in the Scottish budget. I could never understand the economic literacy of that. We should consider how money enters an area in the round in a much more strategic way instead of slashing council budgets while trying to support high streets by slashing business rates.

The result of that is quite clear. We have local economies that are really struggling and high streets that are dying. We have many issues with access to public transport in local areas—for example, the bus networks have been heavily eroded. That has an impact on productivity and on people's ability to get to work or to get to town to spend their money. People do not even have money in their pockets because their pay has been held down. Local businesses are struggling, because the wages that are paid by the biggest employer in the area—the local authority—have not risen. It is a negative cycle.

Too often, we focus on one element of the economy—what is happening to large, or even small, private sector businesses—instead of looking at the whole local economy and thinking about how all the bits of the budget can work together to support outcomes in the area. We are keen on the idea that, in this budget, more of a foundational economy approach should be considered. That involves looking at how to keep money in local areas and considering procurement models, such as the Preston procurement model, that prioritise local spending by the public sector, which supports communities in the long term. We have far too many examples of small things being done to boost the economy in one way that are completely undermined by another line in the same budget document. We need to step away from that approach.

**Colin Beattie:** Do the enterprise and skills agencies, through their budgets and so forth, have a grip of the big picture across the whole of Scotland and the disparities that exist between the regions?

**Helen Martin:** I would say that they probably do not. Gordon McGuinness might disagree with me, but I would say that that is a very difficult challenge for an enterprise and skills agency to have because, ultimately, the issue is about how

different levels of government work together and how the system works in the round.

One of the issues that we have in Scotland is to do with our transport network. There is no motorway to Aberdeen, the roads that go north are not fit for purpose and the train lines that go north are very poor. The investment in the train network is extremely poor, as we know. I could talk all day about the problems with rolling stock and various other issues on the trains. We have an ageing ferry fleet. That is the infrastructure of Scotland, which is what gets companies' products from A to B and gets people to work in the morning. That is the stuff that we need to focus on if we want to bring about a step change in how our economy functions, yet those basic infrastructure issues are an aside when we talk about economic development. The only aspect of infrastructure that the Government gives any focus to is the digital infrastructure. There is a big programme to push that out whereas, with the other stuff, it feels as though we are putting a sticking plaster on what are quite serious problems with how the economy functions.

There are issues that need to be looked at in the round, and I do not feel that the enterprise agencies can be left to do that on their own. The expectation that the enterprise agencies will correct all those things on their own does not seem viable to me.

**Colin Beattie:** Who should do it?

**Helen Martin:** The Government.

**Gordon MacDonald (Edinburgh Pentlands) (SNP):** I want to continue to look at the enterprise and skills agencies and the idea that we should be looking at the big picture, as Colin Beattie suggested.

This year, there have been a couple of reports on automation. The "Cities Outlook 2018" report suggested that 230,000 jobs would be lost over the next decade, and the SCDI report, which came out about two months ago, said that 800,000 jobs were potentially at risk in the near future. Do you think that businesses are geared up to face that challenge? What role should the enterprise and skills agencies play in supporting them to face that challenge?

**Matt Lancashire:** We are in the middle of another industrial revolution—it is already happening. There is obviously a role for the enterprise and skills agencies to play in supporting businesses to be fit for the future and to have the skilled workforce that will be necessary to support automation and AI to ensure that we have an economy for the future.

There is also a role for the agencies to play in bringing more foreign direct investment—the

figures on which can sometimes be extreme—into the country. Scottish Enterprise, SDI and others need to help to bring investment into Scotland so that it can develop as a front-runner in the AI digital revolution. We do not want to be left behind; we want to be at the cutting edge of that revolution so that jobs are retained and created. There is certainly a role for SDS to play in providing support for retraining, and work-based learning is a critical element of that.

It is critical to realise that the fourth industrial revolution cannot be seen in isolation. It cuts across every aspect of our society. Over recent times, we have been shouting from the rooftops about the need for Government to introduce a fourth industrial revolution commission, which should look not at the negatives but at the opportunities that the new industrial revolution provides to create more jobs and to have a world-class workforce. We already have a world-class workforce, but we need to build on that so that we stay at the forefront of the world economy and can drive direct investment into Scotland. The agencies play a massive role in investing in and reskilling our workforce to achieve that.

**Gordon MacDonald:** Is there anybody in the UK Government, the Scottish Government or the agencies who is looking at the issue from the point of view of manufacturing? When it comes to robotics, somebody has to do the manufacturing, the sales, the maintenance and so on. Thirty years ago, there was no mobile phone industry. In order for us to take advantage of all the jobs that are created through such developments, somebody must plan for the future. Is that happening?

**Matt Lancashire:** It is happening in pockets. SDS is doing that, and I know that Gordon McGuinness's team is looking at the issue from a skills perspective. There will be pockets of such activity in Scottish Enterprise. The bit that is missing is the glue. What do we want to achieve in the fourth industrial revolution? Do we just want to be part of it, or do we want to be a front-runner? How do we realise the opportunities? Things are happening in isolation. Good things are happening across industry, the public sector and the agencies, but the problem is that they are not joined up. There is no single aim or vision of being a digitally front-running nation where our people are X, Y and Z—I am making up the objectives as I go along. The key thing is that we need some kind of commission to facilitate discussion between the private sector, the public sector and the agencies so that we can realise that aim. At the moment, that conversation is not happening. If there is some way in which the Government can facilitate a fourth industrial revolution commission, I know that the board and members of SCDI would whole-heartedly support that.

**Helen Martin:** Earlier this year, along with the Scottish Government, we did a report on automation that looked at how automation was already having an impact on the labour market. We did a very small survey of members that found that it was having an impact, but that that impact was still in its early stages. It found that although some sectors, such as banking and retail, had started to see high numbers of job losses, for most sectors the impact of automation was in its very early stages; it was more a question of how jobs were changing than one of how they were being displaced.

However, we share the concern that automation could bring about quite a significant change to the labour market in the future, which is why the STUC, along with the Confederation of British Industry, recently wrote to the Scottish Government on the issue of skills and in-work training and the need to prepare the ground for supporting employers through a tripartite approach, which would involve employers, unions and the Government working together to make sure that there is a proper framework for in-work training.

The focus has been on youth unemployment and supporting young people back into work. That was the right approach during the recession, but the world has moved on and changed a bit. That is not to say that we want there to be a reduction in skills budgets for apprenticeships and so on—we absolutely do not want that. We need more of a focus on in-work training and a framework that allows employers and workers to drive that change. It is very difficult for people in SDS to design a skills system that meets the needs of a rapidly changing labour market, so employers and workers need to talk about what they need to support their skills. We must remember that most people who are in work now will be the people who are in work tomorrow when the jobs will be different, so we need to think about how the current workforce adapts.

10:30

**Gordon McGuinness:** I will share with the committee a paper that SDS has done on what we have deemed as metaskills, which are the skill sets that we believe will make a difference in an environment that will move a hell of a lot more quickly than it has moved in the past. We have done a significant amount of work on that, which is not just for SDS. We are socialising that with our partners and stakeholders and asking them how we can incorporate those skills into the qualification structures and the curriculum. We are working with Education Scotland on that.

The work that we are doing on the enterprise side links to things such as the national

manufacturing institute for Scotland and all the outcomes of what Matt Lancashire described as a programme of work. It is not just a case of focusing on the developments that are going to take place. We need to have a wider operational model that is not just about manufacturing, but which looks much more at the digital side. There are the innovation centres that have been supported by the funding council, as well as the data lab and others. It might not be a coherent package, but some stunning work is being done across Scotland. I mentioned some of the work that the University of Edinburgh is doing on data and analytics as part of the city deal, which is leading at a UK level.

I do not want to be too dismissive, but the presentation could probably be a bit better. There is also a language issue when we speak to companies. A lot of them are not clicking on to Industry 4.0. When we talk to them about the challenges that they face and what some of their competitors are doing, the penny starts to drop and they make the association. We need to reflect on the language that we use when we speak to businesses.

**Gordon MacDonald:** We have touched upon conditionality of business support. Should in-work training be part of the conditions for receiving public funds?

**Gordon McGuinness:** As Helen Martin mentioned earlier, that is an area in which, for the last probably 30 years, the UK Government has been almost completely hands off in policy terms. It has dabbled and done bits of work through train to gain and other programmes. We see a need for such training in the work that we do with industry and businesses. We have a product called skills for growth. We work with SMEs and provide perhaps three days consultancy support to try to hone in on priorities for them to invest in.

When we touch on the demographic profile of the workforce and the need for people to change, there needs to be development in the workplace across the board. Companies also need to make more of e-learning, and there is a bit of an untapped potential in our network of regional colleges.

**Gordon MacDonald:** The Scottish Government's programme for government mentioned increased conditionality. What is your view on that and what are the key conditions that should be attached to any public funding?

**Matt Lancashire:** I have probably touched on that the most in the discussion, and what I said previously does not change.

A further conversation with business will be needed before we take that position forward. The nature of business is changing, and people are

already empowering their workforce and ensuring that they get the training and support that they need. I would not like to say whether that is happening across the board—I do not believe that I could comment on that—but I think that a further conversation is needed with business.

On the back of that, we need to start looking beyond our shores to attract into Scotland the type of businesses that are already doing that stuff by nature; we need them to locate here, to bring their talent here, and to support our economy moving forward. As well as putting increased focus on business support, we need to put increased focus on our competitiveness and to bring here businesses that are already doing that as a matter of course.

**Helen Martin:** One of the good things that was put into the national performance framework was a focus on access to training for workers. That was a really important addition to the framework, because the statistic on that is going in the wrong direction. I think that the measure is the number of employees who have had access to a training course in the past six months or three months, and the figure is very low and falling.

We are very concerned about the fact that someone is much more likely to have received a training course if they are in a high-skilled role already. There is a disconnect between the two ends of the labour market, which we are intensely concerned about. We have high-skilled work in which workers are offered support and—maybe—the chance to update their skills, but at the low-skilled end of the labour market employers tend to take an approach in which there is not necessarily that same investment in the labour market or in skills over the long term.

For us, part of the conversation needs to be about how we ensure that there are routes from low-skilled to high-skilled jobs, and that low-skilled workers are also offered those opportunities. With the changes in technology, we are much more likely to see that hollowing out of the labour market increase rather than decrease and much more likely to see the outcomes for low-skilled workers reduce rather than increase. There is a danger that there is a group of workers for whom the changes are quite negative and that they will only push those people further down into poverty and bad-quality jobs, although I think that every job can be a good job. I do not really like to think of things in those terms, but I know that that is how the discourse often works.

**Rob Gowans:** I reiterate some of the points that were made earlier about using fair work as an opportunity to drive that forward. The fair work convention did an excellent piece of work that got to grips with what fair work is and means in Scotland. It emphasised that fair work is good for

employers and business too, so there might be an opportunity to link that in with some of the funding that is provided.

**The Convener:** Thank you. There are no further questions from committee members, so I thank all the panel members for coming in today.

10:37

*Meeting suspended.*

10:44

*On resuming—*

**The Convener:** I welcome our second panel of witnesses. Kirsty McHugh is the chief executive of the Employment Related Services Association and John Downie is the director of public affairs at the Scottish Council for Voluntary Organisations. We will start with some questions from John Mason.

**John Mason:** If you were here during the previous session, you will not be surprised that I am starting with the budget. Our understanding is that when Westminster was in control of this area, the budget was considerably higher. We are now talking about £96 million for fair start Scotland over three years. Will that budget be sufficient? I think that ERSA said that the programme would support 38,000 workers and maybe suggested that the figure should be higher. Could you comment on that?

**Kirsty McHugh (Employment Related Services Association):** It is quite difficult to compare this budget settlement with what we had before. I think that Matt Lancashire, on the previous panel, referred to the Cambridge Economic Policy Associates work, which was done back in 2012; it found that £660 million was being spent on employability in Scotland, only 12 per cent of which was coming from the Department for Work and Pensions, so there was a much wider pot. Clearly, that was six years ago, so it would be worth doing that work again. In the settlement, the DWP cut the money hugely; it did that for its own programmes as well. The picture now is that the majority of jobseekers are expected to be supported by Jobcentre Plus, so fair start Scotland is a really targeted programme that will support only 38,000 over the three years.

The figure of £96 million is the maximum amount that the Scottish Government can spend on fair start Scotland; it is a payment-by-results programme, so not all the £96 million might be spent. One of the things that we have been saying is that, as the programme goes on, if we think that we are looking at underspends let us take that money and reinvest it in more jobseekers.

Whether the money will be enough—and there is never enough—depends on the intensity of need in the people who are referred and who take up the opportunity to go on the programme, and on whether the providers can bring in additional money around them. It is not just about fair start Scotland. It is about what else can be aligned and co-ordinated.

**John Mason:** Are you suggesting that there is a real risk that the £96 million might not be spent?

**Kirsty McHugh:** It is a payment-by-results programme. It will not be spent and we do not want the money disappearing elsewhere, so we would like some assurances. Let us get some early warnings of that and pull the money back and use it for the jobseekers who really need it.

We have some concerns on the alignment of budgets. First, on programmes that are funded by the European social fund—the biggest ticket funding stream for employability and skills and anti-poverty work in Scotland—a lot of local authorities seem to be taking the view that if a jobseeker is on fair start Scotland they cannot access ESF provision. That was a problem with predecessor programmes, and it is proving to be a problem now.

Secondly—

**John Mason:** What is causing that problem?

**Kirsty McHugh:** I think that people are taking different views on the interpretation of ESF rules. It is a real issue.

The second point concerns individual training accounts. ITAs can be really valuable, but it now appears that if someone is on fair start Scotland they cannot get access to an ITA. That does not seem right, either. We are talking about very vulnerable people who have quite a lot of needs, so we need to pull money in from all over the place to be able to help them.

**John Downie (Scottish Council for Voluntary Organisations):** I think that Kirsty McHugh is saying that, in a sense, there is no coherence around the budget and how it is spent. The £660 million is spent by a variety of agencies—public, private and third sector—and we are not aligning it effectively in a way that takes a look at the persons and what their needs are. At the moment, you can access a pot of money to get support but that cuts you out from another level of support that you might need.

Given all of that, there is another approach, which goes back to the conversation that you had at the end of the previous session about the fourth industrial revolution—if you want to put it like that—and the skills that we need to create a fairer and more prosperous Scotland. We do not want people to be left behind, and the Scottish



Government has the no one left behind strategy, which we are totally supportive of. However, the budget alignment and the spending of money does not match up. Clearly, much more thought needs to be given to what we are spending in terms of employability, where it is invested—whether nationally or locally—who is most in need and whether we are getting to the right people. I think that there is a bigger picture in terms of the budget.

As Kirsty McHugh said, the £96 million may not all be spent, but that is one of the flaws in the fair start Scotland programme—there is payment by results and not payment by progression. For people who are furthest from the marketplace—although I hate that phrase—there is not a linear process from fair start Scotland to getting a job and then to sustaining that job. Particularly if they have mental health, alcohol or drug problems, that will not happen. There is a need to rethink how we interlink the programmes and how we interlink the money, and we need to take a bigger-picture approach to spending in the budget. I am not saying that the £96 million is immaterial but, in the big picture, it needs to fit with what else we are spending.

Kirsty McHugh mentioned the European social fund. Last year, I sat on one of the growth fund panels, which was giving out £150,000 to organisations to help them grow and to create jobs. That involved the third sector. The problem was that we were looking at investing in organisations that were doing employability programmes throughout the country, but we could not tell—or no one could tell us—whether the local authority was investing in the same type of programme in that area. We wanted to know that because we did not want to duplicate any programmes that were already running. We do not have enough data to show that we are effectively spending the money that we are using at the moment. I think that that is a flaw in the system, which does not make the use of the budget—limited or not—as effective as it should be. There are lots of bigger issues than just the £96 million that need to be considered.

**John Mason:** I think that Jackie Baillie asked about that previously. I believe that we are going to get more figures from the Scottish Parliament information centre about the programme, which will be helpful because I think that you are right to say that we all need to understand better where all the money is.

What we have discussed relates to employability. You have mentioned other things, such as health. Do you think that fair start Scotland has any impact on things such as housing, childcare, health and those wider issues?

**John Downie:** One of the key things in terms of getting people into a job is having them in a secure housing environment. That is particularly the case with regard to ex-offenders. The Scottish Council for Voluntary Organisations runs the community jobs Scotland programme, which creates 700 jobs a year in the third sector. Those jobs are targeted at people with long-term conditions, ex-offenders, veterans and other groups of people who are hardest to reach. Our members are creating those jobs but, with regard to a young person who has a chaotic lifestyle and who might have come out of prison, creating the job is not the problem; it is all the other issues surrounding them that need to be thought through. They need support to access benefits, to get housing and so on.

I remember some Scottish Government officials being shocked at one of our question-and-answer sessions on community jobs Scotland when they heard that one of our members gave a young man a £500 deposit to get his flat because they considered that he would be a valuable employee. With regard to some areas, some of the budget that we need—particularly in relation to people furthest from the market who have issues—must involve a consideration of their other needs and how we can support them.

A third sector trust that I was talking to a few months ago gives about £97,000 a year to young people who are getting their first job through the likes of fair start Scotland and other programmes and might need driving lessons, a suit for an interview or knives if they are getting a chef's job. The support is provided through third sector organisations, but that initiative is about supporting the person to actually get that job because it—

**John Mason:** Is that inevitable because the public sector has to be more rigid and the third sector can be more flexible? Is that just the way it works, or do you think that that can be improved on?

**John Downie:** I think that that can be improved upon. The public sector can be flexible. We have seen it in other areas as well. I do not think that it is the case that the third sector is flexible and the public sector is not flexible. That is not what we are arguing. It is about taking those lessons and saying, "How can we do that?" For example, the third sector trust that I mentioned initially gave the money directly to young people. It then found that it had a few issues with where the money was spent, so now it does that through organisations. It learned that lesson.

Housing is particularly important for young people's ability to sustain a job. They have to sustain a tenancy to make that work. If they do not have that tenancy, they do not have the security that enables them to go to work every day.

**Kirsty McHugh:** Fair start Scotland is well designed, in that it is quite specific in terms of the levels of service that the Scottish Government is making sure that the providers give the jobseekers but, at the same time, it is quite flexible. There are likely to be common needs among people on the scheme, often involving a lack of job history, confidence or skills, but we know that there are also people with long-term health conditions or people who have drug and alcohol issues, criminal backgrounds or housing needs. Often, the reason why somebody is not working will be a mix of those issues. It might also involve practical issues, such as there being no bus where they live. Again, the fair start Scotland specification is pretty good on that. It sets out when childcare costs can be covered, for instance.

It is not just about what the providers themselves do, though, but about their partnerships and their knowledge of other local organisations, many of which, in those localities, are going to be third sector.

**John Mason:** That is the issue that I wanted to come on to next. You are talking about partnerships, especially with the third sector. I have a feeling that I know what Mr Downie has to say on this. Do you think there is potential for the third sector to be more involved? If so, how can it be involved?

**John Downie:** It is interesting. Last May, before the contracts were announced for fair start Scotland, the feedback that we were getting from our members was that the time that was afforded to adopt a single contract within each area minimised the involvement of small and medium-sized third sector organisations, particularly the more specialised ones; that the procurement process was not sufficient for the formation of consortia; and that the commissioning process has been overly complex and entirely inaccessible for many organisations. That is set out in a briefing that we will happily send to you. We sent it to ministers before the programme contracts were announced because it contained feedback that we were getting through the process of engagement with the third sector. I think that that was a real missed opportunity. I am hopeful that it will not be missed the next time, so there is huge potential—

**John Mason:** You obviously saw that coming, so why was the third sector not prepared for it?

**John Downie:** What was happening was that a lot of the small and medium-sized organisations were opting out of the process of bidding for any of the contracts because the procurement process favoured larger organisations. Our concern was not that the private sector would win all the contracts but that all the big boys in the third sector would. I mean no disrespect to them,

because we have two of them on our board, but when—

**John Mason:** So the likes of Enable Scotland and the Wise Group would be able to cope with it?

**John Downie:** Yes, they would be able to cope with it. The chief executives of the Wise Group and Enable Scotland are on our board, so we know their concerns. The point of what I am saying is: lots of small and medium-sized providers in the third sector were opting out of the process simply because they found it inaccessible and they were going to be left as subcontractors. They were not able to access it. The procurement process actually worked against what the Scottish Government was aiming to achieve.

We do not have any issues with the aims of fair start Scotland or the aims of what the Scottish Government wants to do in terms of employability. They are hugely ambitious. The principles are right but the procurement process is actively working against achieving those aims.

**John Mason:** Maybe we can learn from that for next time. Would you make it more than nine contracts? Is that how you would do it? Would you make them smaller?

**John Downie:** You can still have the nine contract areas but you can split them into smaller contracts. Part of the process involves creating partnerships with the larger prime contractors and having a subcontracting situation where you have specialist providers. However, what we want to do is create a level playing field between the big players in the third sector and the small and medium-sized players so that we can form more groups of consortia. There are lots of small and medium-sized organisations that are involved in employability but are very specialised providers. They would not be technically termed employability providers, but they are helping people turn their lives around and are getting them into jobs.

**John Mason:** Do you think that they will still be used under the present system or can they not be used?

**John Downie:** They can be used, and some of them are being used, but the feedback that we are getting from some of them is that—although this is not a problem with all of the prime contractors—they feel as if they are being squeezed out of the subcontracting process. Hopefully, when the Scottish Government talks to them, some of that will come out.

Certainly, there are great relationships between some of the prime contractors and the third sector subcontractors but I would say that there are issues in other areas, with some people feeling that they are being squeezed out, as I said.

At the moment, fair start Scotland is what it is. What we need to do is make sure that the next stage is different so that we can achieve the ambitions that we all share.

**Kirsty McHugh:** I partly agree with John Downie on that. I was very involved with an expert reference group behind the scenes in terms of making sure that we got this right. I have seen procurements all over the UK and what I see again and again is that there is great policy intent and then the commercial processes come in sideways towards the end and you get a particular outcome. I have seen that across public services.

11:00

There are a couple of things to note. One is that the procurement was very quick, so the amount of time that the providers were given to put in bids was not long enough. We spoke to the minister about this—

**John Mason:** For the record, can you give us a rough indication of when that was?

**Kirsty McHugh:** It was five weeks ago—something like that. We spoke to the minister and he understood the point that we were making, and the time was slightly extended. However, the shortness of the time meant that people did not have the time to put together the consortia that John Downie is talking about, because that takes longer.

The second thing to note is that commercial processes generally do not like consortia. They judge them as more risky, so, in the scoring criteria, consortia are generally measured a little bit lower. So, inherently, there is something wrong, which means you do not have a level playing field.

I disagree with John Downie with regard to having lots of micro contracts, which I think is probably not a good thing. We have nine at the moment. Let us see how that runs. If you make them too small, you lose a lot and you increase costs, so let us see how these go and then make a judgment for next time around.

**John Downie:** With regard to the nine contracts, I am not saying that we should not do that, but this is about the specialisation and the support that those furthest from the marketplace need. That is particularly relevant with regard to the no one left behind strategy and the access that people who are involved in that will have.

The committee's notes for today's discussion talked about parking and creaming. It is actually easy for contractors at all levels to pick people who are not far from the market place and who maybe need a boost in terms of their confidence after losing a job or who need help with their CV. However, those with further problems need much

more specialised support. Part of the process should involve getting them specialist support before they move on to, say, fair start Scotland, because they need to sort their lives out or address their alcohol or drug problems before they move on to programmes like that.

We see issues around that quite a lot in our community jobs Scotland programme. From our work with Project Scotland, we know that, if someone has volunteering experience before going on to the community jobs Scotland programme, it makes a huge difference, as does mentoring within that process. Volunteering experience helps a young person get ready for the community jobs Scotland programme, which gives them a real job.

There are different ways in which we can look at how we structure fair start Scotland within different contracts but, with regard to people who are far away from the marketplace, you have to think about what their needs are. They might not be ready to step into fair start Scotland, which has the aim of getting them a job—they might need some help with a programme first. The question is how we can help them on the journey that they need to go on.

**The Convener:** Do we need to take a broader perspective in looking at outcomes for individuals? Rather than look at what has happened at a point in time, should we look at whether the person is on a path of progression in terms of their employment or employment prospects?

**John Downie:** Yes—I totally agree. We use a phrase that I do not like much about taking a “person-centred approach”. We need to look at the person and assess their needs when they come into contact with the public sector. For example, with a young ex-offender who comes out of prison, there will be housing issues to be sorted and he might have other problems. What does he need to do next? Is it a volunteering programme or something else, and then should he go on to a job programme? We can design that. We need to do much more at the beginning to assess and ensure that we understand a person's needs, particularly in light of the skills that people need in a moving economy.

We hear a lot of talk about young people being digital natives. Well, they are digital natives on smartphones but not when it comes to the needs of business or the third sector when they move into a job—they do not have the skills that businesses need. There is a whole range of things that we should look at with regard to how we see people. To be honest, that is what the Scottish Government, through fair start Scotland and its overall aims on employability, wants to achieve. I understand the difficulties that it had with fair start Scotland but—

**The Convener:** Sorry, to interrupt, but I will come back to you on that, if I may. Perhaps Ms McHugh will want to comment as well. Part of the difficulty is assessing the effectiveness of any programme. How do you do that if you are not looking at snapshots in time or specific outcomes at specific points? How do you marry the two or fit them together?

**Kirsty McHugh:** I want to make it clear that fair start Scotland is for people who are quite a long way from the labour market but who are assessed as having a fighting chance of getting into work within a year. If they do not fit that criterion, they do not get through the door—they are not referred by Jobcentre Plus or another referral agency. Therefore, we should not have people who are very close to the labour market and who can get into work of their own accord. We have to be clear about that in discussing any concerns about parking and creaming. It is only for 38,000 people and it is targeted at those types of people.

**Gordon MacDonald:** I have a quick question, just for clarification. We have talked about the successful bidders for the contracts in the nine areas. The providers are predominantly third sector and public sector bodies and, in one area where the third sector is not involved in delivering the contract, it is predominantly the public sector that is doing it.

**Kirsty McHugh:** Yes.

**Gordon MacDonald:** If all the successful bidders had been from the third sector, what would have been the difference in providing the programme?

**John Downie:** Are you looking at the information that the Scottish Government has provided on the subcontractors?

**Gordon MacDonald:** Yes. For instance, in the west contract area, the successful bidder was a third sector organisation—the Wise Group—and, of the five delivery partners, four are in the third sector and only one is in the private sector.

**John Downie:** In some areas, it is working quite well. In other areas, a number of third sector organisations that were initially on some of the private sector prime contractors' subcontracting lists are not taking up those opportunities. We need to see the reality of who is providing all the services and for how long it will be sustainable, and those figures are due out pretty soon, I think. That is another issue. I am sure that the list gives a great picture of the third sector provision, but we have to wait and see on some of that. Certainly, that does not fit with some of the feedback that we have had. That is not the case in all the areas—it depends on who the prime contractors are and what relationships they have.

For example, People Plus won the contract in Glasgow, but it has no infrastructure there. I wonder how it won the contract in the first place when the Wise Group won the west area contract and it has a strong infrastructure in Glasgow. I am just throwing that in there. People Plus was starting from a position behind other organisations in terms of its infrastructure and its relationships with the third sector. We have talked about partnerships, subcontracting and consortiums. It takes time to build those relationships.

As we progress with that, it will be interesting to see how it will work. I think that it will be a bit of a moveable feast. I would not make any judgments yet—negative or positive—because I know that, in some areas, the prime contractors and their third sector partners are working brilliantly together but in other areas we are hearing other things. We will feed that into the Scottish Government as we go forward.

**Kirsty McHugh:** We just want the best providers, regardless of sector. We are completely sector blind in relation to that and we have all-in membership. However, third sector organisations can be nervous about payment-by-results contracts and sometimes they do not have the ability to do the financial modelling. That applies to not just third sector organisations but to smaller organisations more generally, so a small private sector organisation might have the same issue. We find some situations where trustees decide not to get involved because they just do not like the level of risk involved. That is inherent with any type of payment-by-results contract.

Where fair start Scotland is better than predecessors is the fact that it is a more benign payment-by-results set-up, with a 30 per cent service fee. By the end of the predecessor programmes, they were all payment by results, which is really hard to cope with.

**The Convener:** I think that Colin Beattie wants to come in on that point.

**Colin Beattie:** Yes—I have questions on payment by results. We have talked about it a fair bit, but I would like to hear more about your views on its appropriateness. What are the alternatives to having that in place? Is there evidence that it skews provider behaviour towards parking and creaming?

**Kirsty McHugh:** There is now a lot of experience in the sector of dealing with payment-by-results contracts. That was not the case when I took up this position eight years ago, so there has been a steep learning curve over that period. The evidence shows that, for people who have very intense needs, it is wrong to have too much focus on the result, and more of the money has to come up front. However, it is not just about the payment

for individual jobseekers; it is about the overall amount of money going into the pot for the provider.

As I said, the concern is about providers being able to do the modelling and deal with the risk. Particularly for subcontractors, there is a concern that the prime contractor can have different payment terms. As part of the subcontracting arrangements, there is potential for a specialist not to be put on a payment-by-results contract but to be paid entirely up front.

**John Downie:** In some areas and with some approaches, payment by results works, but we need a mixed model. We want to pay organisations for the results of getting someone into a job, but the journey to employment is not straightforward for a lot of people. I understand Kirsty McHugh's point about the people that fair start Scotland is targeting but, if we are looking at what we are trying to do overall on employability, we need to look at people's progression, how we measure that and how we pay organisations for it. I am sure that every MSP understands the financial position of most third sector organisations, in that they get one-year funding, with three years as an exception. That works against third sector organisations taking that risk, particularly in the procurement process. Funding was a big issue previously. The 30 per cent service fee is better than the previous situation, but we need to think about a payment model in which a percentage of the payment is based on outcome but we also measure people's progression. That is the key.

There have been successful programmes in some areas. Oxfam ran a programme in Manchester that had a payment-by-progression approach and that was aimed at a particular group. There are models that we can think about. We could say to a specialist provider that is working with another employment provider, "If you get someone off drugs and alcohol and get them job ready, there is a payment for that." Then the employment provider will maybe be paid for getting the person into a job. There are different ways that we can do things. We have a fairly straightforward model that does not take into consideration the journey and the progress that people make.

**Colin Beattie:** How practical is it to have such an individual model? Obviously, payment by results is a one-size-fits-all approach, and there is a distinct point at which payments fall due. Mr Downie seems to be saying that the approach should be tailored to individual circumstances and to the progression of the individual towards the final goal. How practical would it be to do that on a national basis?

**Kirsty McHugh:** I have seen programmes where there have been payments when, for instance, somebody has been helped with their finances or has achieved stable housing. It is possible to pull together a model like that.

The Scottish Government has choices to make about how much focus it wants to put on sustained work as the outcome rather than other things. At the end of the day, those are political choices. However, the amount of money available is also a concern. Given that there is a finite amount of money in the pot, if you focus on the progression outcomes, you might disincentivise providers from doing more of the work-type bit.

**John Downie:** Yes but, looking at the overall pot, we are spending £660 million, as you said.

**Kirsty McHugh:** That was in 2012, but it is less now.

11:15

**John Downie:** It is probably slightly less, but I suspect that it is still around £600 million, which is a lot of money in anyone's terms. We first need to get the right data so that we know what local authorities, the Scottish Government and other agencies are investing in employability programmes, so that we can see where it is being invested and what those bodies are doing with it, so that we are not duplicating.

We talked about the ESF programme earlier. When we were giving out money for programmes, we asked representatives of the Scotland local authorities economic development group—there was supposed to be someone from it here today—to tell us which local authorities would be investing in such programmes, but they could not do that because they do not have the data.

I know that the Scottish Government is trying to address that issue by taking a more joined-up approach, so that we know what we are spending at national level, how that relates to the local level and how we can integrate and align spending. If we had that data, a payment-by-progression model would be much easier. However, as we have seen from UK Government programmes, a one-size-fits-all model has not really worked in the past. We need a much more sophisticated model. It might take five years to move towards that but, from my discussions with the Scottish Government, that seems to be the way that it wants to go. It wants a much more person-centred and personalised approach, so that no one is left behind in the marketplace of the future. In that changing marketplace that we talked about, in terms of the job squeeze and the required skills, it is much more important that we get people in.

We need to think about the outcomes as well. What if someone goes through a jobs programme but you cannot get them into a job at that point, although you could get them into a strong volunteering opportunity, which would probably get them a job in future? I think that that is a positive outcome, even in fair start, where you want to get people into sustained employment.

Over the next 18 months, our thinking needs to get a bit more sophisticated to ensure that the next stage of fair start Scotland builds on where we are now. The Government seems to be up for that debate, but we need to engage the private sector, the public sector and the third sector in that.

**Colin Beattie:** A common theme seems to be an emphasis on things being joined up. On a slightly different angle, in relation to fair start Scotland and the previous transitional programmes, how well are Jobcentre Plus and the devolved services working together?

**Kirsty McHugh:** The official answer is that it is too early to say. The big difference between these programmes and the DWP-run ones is of course they involve the Scottish Government and Jobcentre Plus. However, even in England, the two sides do not always work as happily together as they might do.

Work coaches and others in Jobcentre Plus who see jobseekers and assess whether they are ready to go into fair start Scotland or whatever it might be, have huge pressures on them, not least of which is the roll-out of universal credit. The concern is that, when a new programme is introduced, it takes them quite a long while to understand what it is and what the eligibility criteria are. I could have told you two or three years ago—it is still in my mind now—that the main issue is getting the right number of referrals through and the right people through. That is what the committee should focus on, because that is where it always goes wrong.

**John Downie:** As Kirsty McHugh says, the number of referrals that organisations receive will be a critical measure.

It is an interesting issue. Over the past couple of years, the relationship between Scottish Government employability services and Jobcentre Plus in Scotland has improved and, certainly from the discussions that we have had, they seem to be working together more closely. SCVO delivers community jobs Scotland, and we got a secondee from Jobcentre Plus to help us, which made a huge difference, because they had relationships with jobcentres. That made it hugely easier for us to place people and get people referred.

There is much closer working but it is hard to judge how successful that is. By the time that we get to the end of fair start Scotland, we will see

how it is working. As Kirsty McHugh said, the referrals have always been problematic in some areas—Glasgow in particular had some issues in the past—so we will see how that works, but we are at a very early stage.

**Kirsty McHugh:** One interesting thing to bear in mind is that fair start Scotland is completely voluntary. That is good and we completely back that, but some jobseekers, because they are being referred from Jobcentre Plus, think that it must be mandatory—they just take that for granted. They then go along and meet the fair start Scotland provider, at which point they realise that it is voluntary and they might not want to engage. Jobcentre Plus needs to have the right information to sell fair start Scotland and ensure that people know what they are signing up for before they get to the provider.

The alternative is that a fair start Scotland provider goes into the jobcentre but, at the moment, although some jobcentres are open to that, others are saying, “Oh, no—you can’t come through our doors.” It is very early days, so we are hopeful that that will get better.

**Colin Beattie:** I have one last question. To be pedantic, you have talked about “the right people”. Can you define “the right people”?

**Kirsty McHugh:** It is the people who meet the criteria for the specification. We do not want people being referred to fair start Scotland who are seven months pregnant or people who are just about to go into hospital because they are going to have an operation—it is that sort of thing.

**Jackie Baillie:** Most of my areas have been covered but I come back to procurement, which has raised its head in a number of responses, particularly those on fair start Scotland. What is your view about procurement in relation to the employability fund? Are many of your members involved in that? Do they appreciate the one-year contracts—not that I want to lead you in any direction—rather than the three-year contracts from fair start Scotland? I am interested in your view.

**John Downie:** I was at the Procurex conference last year and the finance minister was saying that we have a world-class procurement service in Scotland, and everybody is looking to see it. Technically, that might be true. The processes are all good but it is not delivering the outcomes that ministers want, and I think that realisation is there.

I spoke to the new Cabinet Secretary for Finance, Economy and Fair Work when he got his new job, and procurement came up very strongly. Unison Scotland released some figures a few months ago about the number of contracts that SMEs were getting in Scotland, so I think that the overall procurement process is working against

the outcome that ministers want for the economy or for creating jobs or whatever else. The process is usually focused on the technical, the bureaucratic and the inputs and the processes and there is a bit of a change.

There is some innovation within the system, and some subtext stuff going on. There is some more interesting stuff but, in fair start Scotland, there was a lot of input from the sector. There was an advisory committee and others and those people did a great job of putting the third sector perspective. When you look at how the process went, you see that there was a lot of consulting but not a lot of listening. I understand the timescales and the difficulties, and I hope that we will improve that for the next time, but I think we still have issues around procurement and commissioning.

As was referred to in your earlier panel on fair work, the fair work convention has a sub-group looking at fair work in social care, where the turnover of staff and the whole contracting and commissioning issue are problematic. From seeing the draft introduction, I know that one of the recommendations will probably be that frameworks and commissioning in social care just do not work. We need to change the dynamic and look at how we award those contracts, as well as at the type of care that we want to provide for people.

Ministers should be looking at the overall procurement system and whether it delivers what they want. I think something like £10 billion a year has been procured through various systems; are we getting the best value for that? Is it delivering the outcomes that fair start Scotland and others intend?

To answer the question, yes, we want to see movement on one-year contracts. I have to say that there has been a lot of movement towards three-year funding from different funding models from the Scottish Government, particularly on the equality side and others, and I think that that trend will continue.

I see that Jackie Baillie is smiling at that, but there is a definite commitment to do that. We are working on different funding models with ministers, so I think that it will come sooner rather than later.

**Kirsty McHugh:** There is a review of the employability fund at the moment. Generally, one-year contracts are hard to deal with. People want certainty. That said, I am conscious that the Scottish Government might move to three-year contracts and some of my members might prefer the one-year one if they are not successful.

We have to look at that broader amount of money and how it fits together, so the review of the employability fund is a real opportunity to

make sure we are using that money as well as possible.

**Gordon MacDonald:** A comment was made earlier that fair start Scotland was well designed and flexible, and we had the transitional programmes prior to that. How important were those transitional programmes and what lessons were learned from them?

**Kirsty McHugh:** We had two, as was mentioned earlier—the work able and work first programmes—which were a continuation of work choice, a disability programme. They were really helpful for Scottish Government officials because I was quite close to them and I was conscious that it was the first time that the Scottish Government had done this, so having the transitional run at it was helpful.

The other thing is that we did not want a gap between provisions at the end of the DWP programmes. You need to keep the capacity in the market. If you lose your front-line staff, you lose everything.

The transitional programmes were really important. They were pretty small and they were not going to change the world in a huge way because of the numbers, but they did flag up some issues. For instance, in Glasgow it felt as though the transitional programmes were competing with some of the Glasgow council-run schemes, so the compatibility came through really clearly there. As an expert group, we were getting live lessons from those transitional schemes that were feeding into thinking about design. The focus on service standards, which comes through in fair start Scotland, was another learning point.

**John Downie:** I see fair start Scotland as a bit of a transitional programme in a sense, as Kirsty McHugh says.

**Kirsty McHugh:** That is true.

**John Downie:** It is actually the first time that the Scottish Government has had to do this. Our conversation with senior officials is about their doing more research into wider employability, particularly the user experience and the streamlining of funding. The conversion in how you allocate the funding is really important. More localised decision-making is also important for people's needs.

The Scottish Government is now conscious of the overall collective impact of all of this. The conversations we have had and the wider review that talked to providers and participants is beginning to happen now. That is a great thing because we will see this as a transition and we can make it better the next time. It will help to improve the amount of money that we are spending on employability overall.

The current process will take time but I can see that we are thinking in the right direction. We are looking at fair start Scotland as a transition; things will get better.

**Gordon MacDonald:** As you said, it is early days and fair start Scotland might well be a transition programme, but how would you measure its success?

**Kirsty McHugh:** One measure is the number of people who start the programme and stay on it rather than drop out. Obviously, it is true that we have to consider things such as job outcomes and sustained work. The number of employers who have engaged is also important.

The reputation of the programme overall is another measure. Jobcentre Plus and the other referral agencies think that this is a great provision and they really want to fight to get their clients on it. Then there will be all the other things that the evaluation will pick up but we will not see in the hard statistics, along the lines of somebody being able to manage their health condition or their unstable housing situation better, for example.

**John Downie:** I agree with that. Earlier, we talked about referrals and the types of services that have been commissioned in different areas, so it will be interesting to see what people's needs are. As Kirsty McHugh said, people in this are supposed to be relatively close to the market but have some issues, while the services have been commissioned by the prime contractors to provide the support that they need. How is a rolling programme of engagement with participants, employers and providers helping to change the dynamic as we go along? That will be an important lesson for them, particularly for the next time. How can we use that lesson to be more flexible as we go forward, so that we are changing as we go forward, and tweaking rather than actually saying, "We will wait until the end of three years and do an evaluation"? On-going learning will be really important.

**Jamie Halcro Johnston (Highlands and Islands) (Con):** A lot of the areas that I was going to cover have already been covered. I want to talk briefly about the voluntary nature of the schemes. What happens to clients who refuse to engage with fair start Scotland?

**Kirsty McHugh:** It is a voluntary programme, so if you have the conversation with Jobcentre Plus, a major referral agency, and you say, "I do not really want to do that", that is absolutely fine. It is voluntary.

The concern is for those people for whom, after they get some information from Jobcentre Plus and go along to the fair start Scotland provider, the penny drops that it is voluntary, it is a year-long scheme and the level of commitment is relatively

high, and who think, "Oh, goodness, this is not for me" because perhaps they have an operation pending or because of other family reasons. The problem is that they count as a referral and they cannot be re-referred a year on, when their circumstances change. That is a flaw in the programme design.

11:30

**Jamie Halcro Johnston:** If they choose not to engage with the scheme or they go on to the scheme and they drop out, what is the option for them after that?

**Kirsty McHugh:** The options are Jobcentre Plus and anything else that Jobcentre Plus might want to refer them to.

**Jamie Halcro Johnston:** That is all.

**Kirsty McHugh:** However, they cannot come back a year on and say, "I am ready for it now".

**Jamie Halcro Johnston:** They will be excluded from the fair start Scotland scheme.

**Kirsty McHugh:** Yes.

**Jamie Halcro Johnston:** Will they be excluded just for a period or for good?

**Kirsty McHugh:** They will be excluded forever, unless there is a health condition issue. There is something about health and disabilities—you will have to check this—that might mean that someone who has such issues can rejoin, but the bulk of people will really only have the one chance.

**Jamie Halcro Johnston:** They have one go and that is it.

**Kirsty McHugh:** Yes.

**Jamie Halcro Johnston:** My next question is not quite on the same subject. You mentioned a figure: the scheme is aimed at 38,000 people. Is that the maximum number of people out there that would fit into the criteria? How many people would fit into that criteria?

**Kirsty McHugh:** A much larger number would.

**Jamie Halcro Johnston:** What kind of number?

**Kirsty McHugh:** Goodness. The STUC mentioned the disability employment gap, and a lot of those people would fall within the scope of this particular programme. Do you have any idea, John? It would be high.

**John Downie:** It would be much larger. The Scottish Government is currently looking for ideas for how we deal with the disability employment gap as a separate issue. It is a difficult area simply because it is about getting the right level of support that the employers need to take someone



on. Once someone is in a job, employers absolutely want to keep them because they are usually really good, but they need to get the right level of support. It is that additionality that some people need that makes it slightly difficult and problematic.

It is one of those things. On the wider employability issue, if someone is over a certain age, for example, Jobcentre Plus will not offer them any support at all. We need to look at what people need, at the labour market, and at the support that we can offer people in different circumstances, such as if they were made redundant six months ago, or if they have been out of work for three or four years because of a health issue. That is where we need a better assessment of need and understanding of the labour market so that we know where we can point people to jobs.

For example, we all know that care is a growing area in Scotland. It will create more jobs. However, there is a high turnover at the moment given the pay, the nature of the job and the contracts that organisations offer.

We can look at where we can create different jobs but what are we going to do to get those people into those jobs and make them job ready so that the employers want to take them on? We need to take a holistic look at the employability agenda.

**Kirsty McHugh:** One lesson that we learned from last year's work able programme was that referrals were not coming through. We dug around a bit and found that, because they have new freedoms and flexibilities, some jobcentres were seeing people who are on employment and support allowance only twice a year. Because they were not seeing them, they could not have a conversation about the new provision that had become available. That is an issue.

**Jamie Halcro Johnston:** Thank you for that. I was visiting my local DWP on Friday and one of the issues that they were talking about was care, the shortage of carers and how to get more people involved.

I want to jump on to another subject very quickly. You talked about the relationship between the prime contractors or the delivery partners and the subcontractors. Some of those relationships are less difficult or not quite there. Have any completely broken down?

**Kirsty McHugh:** I do not think so.

**John Downie:** I do not think so. Obviously there is a conversation to be had with the prime contractors and the subcontractors about what you want them to do and how much you are going to

pay them. Some people have said to us that they feel that their margins have been squeezed.

People have the option to take the contract or not to engage with the prime contractors, and some have said, "We are going to opt out. We were on your subcontracting list but we do not like the look of that". That is a choice people make, and we need to be careful that we do not lose the really good specialised providers. A lot of that will come out once we see the referrals, the systems, what has been commissioned and, at the end of the first quarter, the list of who the prime contractors are using.

**Kirsty McHugh:** I would be more concerned about referrals not going through to fair start Scotland in sufficient numbers, because that will hurt the subcontractors. Smaller subcontractors are quite vulnerable.

**Jamie Halcro Johnston:** Do we know of any cases of subcontractors who have stopped putting themselves forward for those contracts?

**Kirsty McHugh:** The Scottish Association for Mental Health decided not to be part of this. It goes back to the very first question about the money available for something called individual placement support. That is a very well-evidenced mental health intervention, which integrates mental health support and employability support. It is expensive. SAMH is an expert in relation to that. It is probably not affordable on this programme.

**John Downie:** It is not.

**Kirsty McHugh:** The minister wanted to see it across the whole of fair start Scotland but I do not know how the providers are going to do that.

**Jamie Halcro Johnston:** That was an issue of funding. Perhaps the funding needed to be provided by the contractor up front or—

**Kirsty McHugh:** The figures I have seen quoted for proper individual placement support at the fidelity levels are about £20,000 a place.

**John Downie:** The interesting thing is that a lot of organisations, whether prime contractors or subcontractors, have been very open and transparent with the Scottish Government and said, "Here are our costs. Here are the figures. Here is what we can do stuff for." The Government is getting a more realistic view of potential future costs, what that actually means and what it costs to help someone who has mental health problems.

**Kirsty McHugh:** They do open-book accounting.

**John Downie:** There is much more transparency privately within the system.

**The Convener:** I thank both of our witnesses, and I suspend the meeting for 30 seconds while

the minister comes in to deal with the next item of business.

11:38

*On resuming—*

11:36

*Meeting suspended.*

## Subordinate Legislation

### Debt Arrangement Scheme (Scotland) Amendment Regulations 2018 [Draft]

**The Convener:** We move on to agenda item 3. I welcome Jamie Hepburn, the Minister for Business, Fair Work and Skills, who is accompanied by Victoria Morton, a lawyer in the constitutional and civil law division of the Scottish Government's legal directorate, and Richard Dennis, the Accountant in Bankruptcy and agency chief executive.

We are looking at the draft Debt Arrangement Scheme (Scotland) Amendment Regulations 2018. I invite the minister to make an opening statement.

**The Minister for Business, Fair Work and Skills (Jamie Hepburn):** Convener, I begin by thanking you and the committee for taking time to consider the draft regulations. They make a small number of important changes to the debt arrangement scheme, providing greater flexibility and accessibility to the programme.

I believe that we should be proud of the debt arrangement scheme as the first scheme of its type in the UK and a highly successful debt repayment programme. It provides protection to those who wish to repay their debt but need more time to do so. It is an important mechanism in helping those who find themselves in difficulty with debt. Over 6,000 people have used the scheme to pay off their debts, preventing them from having to either become bankrupt or enter a protected trust deed. It has also allowed a substantial return to creditors, with almost £200 million having been repaid since 2011.

The proposed changes reflect feedback that has been received in consultation with stakeholders about how to enable more people to benefit from the scheme. In particular, they reflect a request from the money advice sector to increase the scheme's flexibility. I share its view that the proposed changes will allow more people to successfully complete repayment programmes.

I will briefly highlight the two most substantial changes. The first is to remove the requirement to contribute the full surplus income that a person has as part of any debt arrangement scheme. That is to allow debtors a better chance to deal with any unexpected events that they may face. Creditors may have to wait longer to be repaid in some cases, but I believe it is in their interests to see debts being repaid in full through a successful

debt payment programme, rather than being written off through bankruptcy.

Stakeholder feedback also led to the proposal to allow housing debt to be excluded from proposed debt payment programmes. In the majority of cases, the right choice will still be for all debts to be included, but the scheme can work only where it offers the debtor protection from enforcement action, and I take the view that the mandatory inclusion of housing debt could in some circumstances pose a threat to an individual's housing status. That is clearly something that we want to avoid. There is also a concern that the possibility may have put some people off signing up for the debt arrangement scheme who could otherwise have benefited from it.

We are also using the opportunity that is provided by the regulations to make a number of other improvements. They are likely to affect only a small number of cases but, given that the regulations give us an opportunity to make such improvements, I believe that we should take the opportunity. For example, regulation 10 modernises the legislative language to reflect changes in the law on same-sex marriage, while regulation 4 extends the powers of a debt arrangement scheme's administrator to fix accidental errors to reflect experience that has been gained in running the scheme.

Regulation 16 extends the circumstances in which the debtor may apply for a payment break as a result of a fall in income, to include cases where that income comes from benefits. In response to the matter being highlighted during the consultation process, regulation 6 creates a sensitivity clause to afford vulnerable applicants the same level of protection when entering an insolvency solution so that, where appropriate, those who are confirmed as being at risk may have their address details withheld from the debt arrangement scheme register.

The draft regulations provide an opportunity to significantly enhance a highly successful programme and they have received widespread support from across the sector. I hope that I can rely on the committee's support. I will, of course, be happy to take any questions that you may have, as will Dr Dennis and Ms Morton.

**The Convener:** Thank you, minister. Does any member of the committee have any questions?

There being none, we move to agenda item 4 and the formal debate on the motion to approve the affirmative instrument. I invite the minister to move the motion.

*Motion moved,*

That the Economy, Energy and Fair Work Committee recommends that the Debt Arrangement Scheme

(Scotland) Amendment Regulations 2018 [draft] be approved.—[*Jamie Hepburn*]

**The Convener:** As no one wishes to speak on the matter, I will simply put the question. The question is, that motion S5M-13670 be agreed to.

*Motion agreed to.*

**The Convener:** Thank you for coming in.

**Jamie Hepburn:** Thank you, convener.

**The Convener:** Is the committee agreed that I, as convener, and the clerk should produce a short factual report on the committee's decision and arrange for it to be published?

**Members indicated agreement.**

**The Convener:** Thank you.

11:43

*Meeting continued in private until 12:10.*



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