



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Energy and Fair Work Committee

Tuesday 18 February 2020

Session 5



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Pàrlamaid na h-Alba

Tuesday 18 February 2020

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ECONOMY, ENERGY AND FAIR WORK COMMITTEE

5th Meeting 2020, Session 5

CONVENER

*Gordon Lindhurst (Lothian) (Con)

DEPUTY CONVENER

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

COMMITTEE MEMBERS

*Jackie Baillie (Dumbarton) (Lab)
*Colin Beattie (Midlothian North and Musselburgh) (SNP)
Jamie Halcro Johnston (Highlands and Islands) (Con)
*Dean Lockhart (Mid Scotland and Fife) (Con)
*Richard Lyle (Uddingston and Bellshill) (SNP)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Jamie Hepburn (Minister for Business, Fair Work and Skills)
Dominic Munro (Scottish Government)
Richard Rollison (Scottish Government)
Kathleen Swift (Scottish Government)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy, Energy and Fair Work Committee

Tuesday 18 February 2020

[The Convener opened the meeting at 11:00]

Decision on Taking Business in Private

The Convener (Gordon Lindhurst): Good morning, and welcome to the fifth meeting in 2020 of the Economy, Energy and Fair Work Committee. The first item is a decision to take items 3 and 4 in private. Is that agreed?

Members *indicated agreement.*

The Convener: I should also mention that Jamie Halcro Johnston has given his apologies.

Budget Scrutiny 2020-21

11:00

The Convener: The second item is scrutiny of the budget for 2020-21. We have with us the Minister for Business, Fair Work and Skills, Jamie Hepburn. With him, from the Scottish Government, are Kathleen Swift, business manager for finance and planning; Dominic Munro, the director for fair work, employability and skills; and Richard Rollison, deputy director at the directorate for economic development. Welcome to all four of you.

Minister, I understand that you have a brief opening statement for us.

Jamie Hepburn (Minister for Business, Fair Work and Skills): Convener, good morning to you and colleagues on the committee.

The Scottish budget has been set in extraordinary circumstances. On 31 January, the United Kingdom left the European Union against the express wishes of the majority of the people of Scotland. In the next year, the UK Government will enter into trade negotiations with the EU, for—it has said—agreement by the end of 2020.

The outlook for the economy continues to be dominated by Brexit and the significant uncertainty that is associated with whether the UK will reach a trade agreement with the EU and the potential terms of EU and non-EU trade that will take effect from that point. As a result, a no-deal Brexit remains a risk to the Scottish economy, and the scale of the uncertainty is likely to continue to impact on business and consumer sentiment.

The other factor to consider is the late UK budget, which was deferred from 6 November last year to 11 March. As the committee and Parliament know, that has meant challenges to the funding that is available for public services in Scotland and to the implications of the UK Government's tax policy for the country. Further delay to the budget would have exacerbated the uncertainty, so today's confirmation that the UK budget will proceed on 11 March is welcome.

Against that background, we set out our proposals for the finance, economy and fair work portfolio, as it was. Despite challenging headwinds, there are encouraging trends in the economy. The labour market continues to perform strongly when compared to historic records, and Scotland's productivity continues to grow. In the year to quarter 3 of 2019, productivity in Scotland grew by 0.8 per cent compared to growth of 0.1 per cent in the UK.

Independent forecasts for Scotland expect growth of around 1 per cent this year and say that

growth will strengthen gradually, although it will stay below historical levels. We must do all that we can to establish the right environment for business to grow, create jobs and invest in.

Our newly refreshed economic action plan sets out a range of positive actions that the Government is taking to deliver inclusive growth. It sets out how we will tackle the global climate emergency, grow an inclusive economy and face up to the challenges of Brexit, changing demographics and shifting global circumstances.

The Scottish Government is committed to delivering a successful economy that works for all of Scotland. Our approach to inclusive growth means that we are proactively investing to improve our prospects for long-term transformational change that is underpinned by a strong, competitive economy alongside reduced levels of inequality and poverty. In the budget, we are making a number of commitments to improve our competitiveness, boost investment across Scotland and support our commitment to fair work, enabling access to quality jobs and decent incomes.

In 2021, we are committed to providing £220 million in seed funding to support the establishment of the Scottish national investment bank. We are increasing the international trade and investment budget by more than a quarter as part of our ambitious plan to increase the value of exports from 20 per cent to 25 per cent of Scotland's gross domestic product over the next years and to mitigate the effect of the UK's exit from the EU.

We are investing in the new manufacturing institute for Scotland, which will bring together industry, research and the public sector to help companies across Scotland to embrace new manufacturing techniques, support research and develop the skills of our workforce.

We will maintain the UK's most competitive business rates regime with the lowest poundage and relief schemes including the small business bonus and the business growth accelerator, which the Scottish Fiscal Commission estimates to be worth £744 million.

We will make at least £37 million available to support research and development projects and meet our target of doubling business investment in R and D by 2025.

We are investing around £2.3 billion in our colleges, universities and enterprise and skills bodies, to enable them to provide the vital support that is required to realise Scotland's economic vision. Our green growth accelerator model will extend the current growth accelerator model to unlock additional investment for infrastructure

projects that support our transition to a net zero-emissions economy.

Scotland's employment rate remains high compared with historical records, and our unemployment rate remains low. This morning's labour market statistics exemplify that. There has been a positive change since the previous quarter: employment is up to 75 per cent and unemployment is down to 3.5 per cent, which is near the record low that we saw last year.

I recognise that there is more to be done. We have to tackle barriers to work, support training and promote fair work—all are essential elements of improving Scotland's economy and improving opportunities here. We will continue to develop and deliver our fair start Scotland service, which gives individualised support to 38,000 people who are facing the greatest barriers to employment. We will double our investment—from £10 million to £20 million—in the flexible workforce development fund, which supports the upskilling and retraining of Scotland's workforce. We aim to support more than 2,000 women to return to work following a career break. As we set out in our fair work action plan, we will continue to work towards Scotland being a world-leading fair work nation. As part of our new approach to funding employability services, we will better align funding and deliver stronger outcomes for people who are seeking work by bringing together a number of existing funding areas, including the local employability model, the employability fund and community jobs Scotland.

This budget also supports the discovering your potential programme, which is aimed at reducing inequality by targeting care-experienced young people, who are one of the most disadvantaged groups in the labour market. We will support parents to reduce barriers to work and provide support to help low-income parents in work. We will also work to close the disability employment and gender pay gaps.

I hope that my opening remarks are helpful. Kathleen Swift, Dominic Munro and Richard Rollison and I will be happy to do our collective best to answer your questions.

The Convener: Thank you for that opening statement, minister. You referred to challenges to the economy. If we look at the level 3 spend that is relevant to the economy and fair work remit of this committee, we see that real-terms spend on enterprise, trade and investment, and employability and training, among other things, has decreased. How will decreasing spending in those areas help to meet those challenges to the economy?

Jamie Hepburn: It is important to look at these things in the round. The first thing that I would set

out in relation to enterprise agencies is that we are moving into a new period in which the Scottish national investment bank is being established to undertake its important work to support businesses to grow. When you factor that in alongside the three enterprise agencies that we will have, you will see a 13.8 per cent increase in available funding for those four entities.

The other thing that I would stress is that we are operating in a new phase of activity in which the Enterprise and Skills Strategic Board is bringing together not just the enterprise agencies but the skills agencies. We have to consider those agencies in the round, so that they are all pulling in the same direction. We are seeing an increase in funding for universities, colleges and Skills Development Scotland, which is supporting a range of activities to support the economy—through SDS apprenticeships, for example.

The other thing that is not included in this budget line is the important new area of funding through the communities budget, which includes the parental employment support fund.

When you factor in those things, you start to see increased funding.

The Convener: You spoke about additional funding for universities, but, surely, what our economy needs in the training budget is more funding not for academic education but for practical training.

Jamie Hepburn: My first observation would be that plenty of academic training is practical training, but I understand the point that you are making. That is why I also made the point that Skills Development Scotland's budget line will increase this year, which will allow us to continue to grow the number of apprenticeship opportunities that we have. We have committed to 30,000 such apprenticeship starts by the end of the current parliamentary session, and we have committed to delivering 29,000 this year. I am confident that we will meet that target as we continue to grow that area of activity.

Through our range of other activities, we will also see an uplift of the flexible workforce development fund, which supports employers to identify their training needs. That fund is doubling in value, from £10 million to £20 million.

Returning to my point about vulnerable parents who might be disenfranchised from, or struggling to progress in, the labour market, we have created the parental employment support fund. Although that is not in the finance, economy and fair work budget lines—it is in the communities and local government budget lines—it is directed towards that purpose.

So, the type of activity that you believe we should be undertaking is at the heart of what we are trying to deliver in the coming year.

The Convener: Funding is down for overall budget allocations to Scottish Enterprise and Highlands and Islands Enterprise. Do you think that the allocations to the SNIB will make up for that?

Jamie Hepburn: In relation to Scottish Enterprise, we see some changes being driven by the new reality—responsibility for some of the areas of activity that were being delivered by Scottish Enterprise is now transferring to the Scottish national investment bank.

The other important element in the landscape, for which I know there is widespread support because the Scottish Parliament passed the bill to establish it, is the south of Scotland enterprise agency. At present, the area is the responsibility of Scottish Enterprise, so some funding is transferring to establish the new agency.

I go back to my point that, when we factor in the three enterprise agencies and the Scottish national investment bank, funding across the board has increased by 13.8 per cent for the coming financial year.

Gordon MacDonald (Edinburgh Pentlands) (SNP): I have a specific question about economic advice. The level 3 estimates show that the spend on economic advice was £1.7 million in 2012-13 but that it is forecast to be £12.5 million in 2020-21. The increase started shortly after the Scotland Act 2016 was passed. Bearing in mind the increased volatility in the Scottish budget, will you give us an idea of what the extra spend on economic advice is being put towards?

Jamie Hepburn: Two things prevail upon that budget line. One is a technicality, and I will bring in Kathleen Swift to explain it further. Essentially, it is an accounting mechanism—total operating costs were not previously accounted against some budget lines but they now are. That accounts for the lion's share. Gordon MacDonald, as an accountant, will understand those things better than I do.

The other area of activity, which I am sure the committee will welcome, is that some of the funding increase is related to our moving forward to establish consumer Scotland. Next week, we will consider the Consumer (Scotland) Bill at stage 2, and I am very grateful for the activity of and engagement with the committee in relation to that piece of legislation.

We are also moving from providing levy funding for Citizens Advice Scotland to providing some grant funding—£950,000 in the coming year—that will increase the amount of money that Citizens

Advice Scotland has to spend in the area of consumer policy. That move is driving the increase.

So, it is partly down to a policy change to leverage more money into supporting consumers, which I believe is the right thing to do, and partly about accounting. Kathleen Swift can say more about that, because it probably affects not just that budget line but a number of lines.

Kathleen Swift (Scottish Government): Since 2019-20, we reflect our operating costs by showing them on the face of individual portfolio budgets rather than within the administration budget. A chunk of the increase for economic advice relates to the operating costs now being reflected there. The only other substantial increase relates to the setting up of the consumer Scotland body, for which we have made an increase of £1.75 million in 2020-21. Those are the main increases in that budget line.

Gordon MacDonald: That amalgamates costs that were previously accrued across different headings.

Kathleen Swift: Yes. In effect, we had an overall SG administration budget and those costs are now being set across the areas in which the work is done, and the staff associated with those policies are paid from those lines.

11:15

Gordon MacDonald: One of our previous committee inquiries was about the lack of economic data, a lot of which is based on small forecasts. Is any work being done to improve the accuracy of the forecasting that we get? I mean economic not budgetary forecasting.

Jamie Hepburn: Are you referring to a particular agency, or are you talking generally?

Gordon MacDonald: Generally.

Jamie Hepburn: I may bring in Dominic Munro to speak more about that, because he has been involved in the work of the strategic board, the analytical unit of which has undertaken a range of work to improve data measurement. Working out the appropriate thing to gather and analyse and how to improve that process is one of the eternal challenges for us. Some information is available, but we always look to finesse the forecasting. Dominic Munro can speak about the activity of the analytical unit in that area.

Dominic Munro (Scottish Government): I will say three things. First, the analytical unit spans the enterprise agencies and has considerable new resource to devote to areas such as performance monitoring and assessment of the impact of activity.

Secondly, that work is supplemented by the work that happens in the enterprise and skills agencies. For example, Scottish Enterprise and Skills Development Scotland will have that kind of forecasting capability.

The third area is our continued investment in the office of the chief economic advisor, which is part of the budget line to which you refer. The heart of the Scottish Government's economic forecasting capability resides there.

Gordon MacDonald: We had a lot of difficulty with Her Majesty's Revenue and Customs getting the forecast wrong when income tax figures first came out. Now that that reconciliation is to be resolved in the next year or so and we have spent more money on the areas that you referred to, will our forecasts be more accurate for budgeting purposes?

Dominic Munro: That question probably refers to the potential roles of the Scottish Fiscal Commission in a Scottish context, to the fiscal forecasting work that our UK Exchequer colleagues do and to that of Revenue Scotland. Each of those areas is covered within the budget. Indeed, we are investing to increase the capability of a number of them. Hopefully, that will address the point.

Richard Lyle (Uddingston and Bellshill) (SNP): In relation to Gordon MacDonald's questions, do those departments track Scotland's imports and exports? Do we have economic data on where we are and how well we are doing?

Jamie Hepburn: That work is undertaken by the office of the chief economic advisor.

Richard Lyle: So, we track that performance.

Jamie Hepburn: We do our best.

Richard Rollison (Scottish Government): There is an annual report on Scotland's export performance, based on a survey of Scottish companies. Imports are a bit trickier.

Richard Lyle: How well are we doing?

Richard Rollison: I do not have the figures to hand. Exports have gone up over the past year and we have our "Scotland: a trading nation" plan, which aims to increase exports to 25 per cent of our gross domestic product.

Jamie Hepburn: If Mr Lyle will bear with me, we will find some information on exports.

Richard Lyle: It is my understanding that exports have grown tremendously.

Jamie Hepburn: Some of the information comes from HMRC, for which we are not responsible. However, it provides a breakdown of figures.

Richard Lyle: Trying to extrapolate figures is hard.

Jamie Hepburn: It is when we do not have control over HMRC. It provides figures that show that in the year ending September 2019, Scotland's goods exports increased by 11.3 per cent, while the overall UK rate was 2.4 per cent, so we have done quite well in the past year.

Richard Lyle: So, is that a fivefold increase on what the UK is doing?

Jamie Hepburn: I am loth to commit to that calculation being definitive. I cannot say that, just by setting one percentage against the other, but we can certainly say that we have done better.

Richard Lyle: That is interesting news. It is nice to know that Scotland is doing better than the UK.

The Scottish Government plans to spend £30.3 million in 2021 on innovation and industries. In the level 4 figures, that is described as contributing

"towards the Scottish Government's growth ambitions for Scotland by cultivating a culture of innovation, entrepreneurship and global ambition amongst Scotland's innovators and early stage businesses."

What does that spend actually buy?

Jamie Hepburn: The breakdown of the figures is that there is £15 million of capital spend, £10 million of resource spend and—to go back to the discussion that we just had—the remainder is the total operating cost. The capital budget supports research and development, for example. I already referred to our target, which is to double business enterprise research and development expenditure between 2017 and 2025. The spend supports our commitment to an additional £50 million a year, on top of the £22 million that is already provided for research and development grants for each year from 2018-19.

Such activity will support a range of projects that will create new products, processes and services to improve companies' competitiveness and productivity levels in order to benefit the wider Scottish economy and, sometimes, to try to retain activity in certain areas. An example of that is Texas Instruments seeking to leave Inverclyde, which we would all concur is not an area of Scotland from which we want to lose economic activity. A real partnership approach was taken by Scottish Enterprise, the Scottish Government and Inverclyde Council in the Texas Instruments task force, of which I was latterly a part. We worked hard to ensure that the proposed departure did not happen. We supported Diodes Incorporated's purchase of the plant by helping it to invest in research and development through grant over five years to support its processes. I believe that that made a significant contribution to ensuring that Diodes came to Inverclyde.

We also fund a variety of links between business and universities through the industry and academic links fund and knowledge transfer grants, which ensure that Scotland's colleges and universities are better aligned with and better support our businesses.

We undertake other activities in the entrepreneurial landscape. For example, I am involved in the women in enterprise action group in which, I know, the committee has taken an interest. We are progressing our work; I would be happy to come back to update the committee on it. Investment support goes towards that type of activity—it is all important activity that is designed to support Scotland's businesses and economy.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): I want to ask about economic performance, outlook and productivity. The committee's papers tell us about the Scottish Fiscal Commission's growth and GDP forecasts, which are pretty much flatlining at near-zero growth; the estimates for the coming year hover around a heady 1 per cent.

If we look across the water to Ireland, we see that it is predicting about 3.5 per cent growth in GDP, which is down from previous years, when it was 5 per cent. The political debate in the Scottish Parliament is about whether we are using the levers that are at our disposal to best effect, whether we could do more, and whether we are short of economic levers that would allow Scotland at least to match—and look forward to—growth levels such as those that Ireland is currently enjoying. What is your take on that? What levers are at your disposal that you are deploying, and what levers do we need in order to accelerate Scottish growth further?

Jamie Hepburn: It will come as no surprise that I agree with Mr Coffey's perspective: I believe that more such levers could be in the hands of the Scottish Parliament. However, in focusing on the budget that is before us, I can say that we are still seeing economic growth in Scotland. Is the level as high as any of us here would like? No—we would certainly like to see it being higher.

Of course, we have been facing challenges related to Brexit uncertainty. As committee members might imagine, in my capacity as Minister for Business, Fair Work and Skills, I encounter such challenges in my regular engagement with the wider business community through its representative organisations, including the Scottish Council for Development and Industry, Scottish Chambers of Commerce and the Confederation of British Industry. They have all spoken of the challenges that the uncertainty presents—for example, through investment propositions being delayed.

We have not yet got through that period, and the uncertainty continues to prevail in the Scottish economy. It behoves us to respond as best we can, which we are seeking to do. For example, significant effort is being undertaken to capitalise the Scottish national investment bank, with the provision of £2 billion of funding over 10 years. As I have said, the Scottish Government is leveraging in £220 million in the coming financial year. We are deploying significant resource—some £200 million in the coming year—in city and growth deals that are designed to stimulate economic activity. There is also the on-going activity of our enterprise agencies, which are working more closely with our skills agency and the Scottish Funding Council to ensure that the outputs of our skills and training system are better aligned with the needs of employers, in order to help them to grow the economy.

The Scottish Government is trying to pull in the right direction, but it is doing so against a backdrop of challenging times.

Willie Coffey: When I served on the then Finance Committee, it was generally accepted by the committee that one of the biggest factors in influencing productivity is the workforce. Do you see the ability to grow and develop the workforce as being a key factor in improving productivity? Members across that committee seemed to agree that it was.

Jamie Hepburn: That is the key factor, for a variety of reasons. First, we need to ensure that people have the requisite skill sets to enable them to be deployed in the future. We know that we are living in a period in which the economy is changing. I suppose that it always is, but recent change, largely through advances in technology, is accelerating that process. We must ensure that people have the skills to enable them to cope with that reality, so that we have a productive workforce, which is why the Government has introduced the future skills action plan and the flexible workforce development fund. It is also why we continue to fund individual training accounts and are working with the tertiary education sector to ensure that it is ever more responsive to employers' demands.

Recently, we saw publication of a report on the economic impact of Scotland's colleges, which was commissioned by the Scottish Government and undertaken by Audrey Cumberland, who is the principal of Edinburgh College, and Paul Little, who is the principal of City of Glasgow College. It made a number of recommendations that touched on this area, to which the Government will respond in due course.

I therefore agree with Mr Coffey that investment in people's skill sets and ensuring that they are responsive to economic and societal demands are

critical measures for the development of our workforce. Another is our fair work agenda, which some might feel is rather a woolly concept, although it might be a nice thing to do.

However, it is an important social intervention. Its benefits for individual employees are self-evident, in that employees are adequately remunerated, their wider life circumstances are taken account of and there is investment in developing their skills and capabilities. That takes me back to my point about investing in employees.

11:30

The fair work agenda is also of fundamental economic importance. We fund Family Friendly Working Scotland to promote the benefits of flexible working, for example, and I have met employers who have adopted and embraced that agenda, which is a crucial part of the fair work agenda, as is the real living wage. Employers that are actively engaged in the agenda, particularly employers that have changed their work practices, say that not only have their employees benefited, but they, as employers, have benefited, largely because of reduced absenteeism, greater retention and a happier and more productive workforce.

Investing in workforce skills and operating fair work practices are critical to our efforts to improve productivity. Of course, productivity continues to improve in Scotland at a rate that is ahead of the rate of the UK as a whole. We have virtually bridged the productivity gap. I have the exact figures somewhere in my briefing papers. We have come from a position a few years ago of productivity being about 20 per cent below the UK level, to a productivity rate that is 99 per cent of the UK level. If the trend continues, we will overtake the UK as a whole.

Willie Coffey: Are your counterparts in the UK Government fully aware of the importance to Scotland of having access to a workforce so that we can grow and develop our economy? Is it understood and accepted that that is crucial for us?

Jamie Hepburn: In terms of employers' ability to source part of their labour supply from other parts of the EU—which employers tell me is a fundamental challenge—the answer is no. I do not detect much sensitivity on the part of the UK Government to the requirements of the Scottish economy. Of course, we continue to engage with the UK Government; I seek to do that, as does Michael Russell, in the context of his overarching responsibility for engagement between the Scottish and UK Governments on Brexit.

In other areas, we do not yet have the proof of the pudding. The UK Government is going to

introduce an employment bill. I have concerns about that, given that the European Union (Withdrawal Agreement) Act 2020 removes workers' protections that the European Union had set out. I imagine that that causes most—I hope, all—members of the committee concern. What might be in that bill remains to be seen.

Of course, we are not just sitting back. I have written to the UK Government about elements of its proposed bill; I will be happy to share that work with the committee, if you would like me to do so. Again, that relates to the fair work agenda. It is reported that the UK Government will respond to the Taylor review in its employment bill. We welcomed some of the findings of the Taylor review, although they did not go as far as we would have liked on the fair work agenda, as defined by the independent Fair Work Convention. We will have to see what is in the bill.

Dean Lockhart (Mid Scotland and Fife) (Con): Minister, you mentioned the employment figures that were released earlier today. The figures show a rate of economic inactivity in Scotland of 22.2 per cent, which is well above the UK average of around 20 per cent. The SFC has said that the higher levels of economic inactivity in Scotland are partly why there is a shortfall in income tax receipts in the Scottish budget, because if we have higher levels of economic inactivity, we do not have the same taxpayer base contributing to the budget. Cabinet secretary, why has long-term economic inactivity been higher in Scotland? What steps are you taking to address that chronic issue?

Jamie Hepburn: The first thing that I should say is that I am not the cabinet secretary, but I will do my best to answer your questions.

Dean Lockhart: You got a promotion between the start and the end of my question.

Jamie Hepburn: I was just glad that we got confirmation that the UK budget is going ahead on 11 March—that is all the news that I needed before I came to this session.

I am always very cautious about how we interpret “economic inactivity”, because in fact it covers a range of “activity” including, as defined under international precepts, for good or ill, participation in tertiary education. It also covers the numbers of disabled people who may not be able to be employed, some of whom are interested in being employed. We seek to respond to that through fair start Scotland, which is reaching the disabled population in Scotland, which is proportionately higher here than the disabled population in the UK as a whole. Through that employment programme, we are reaching out to and engaging with a higher percentage of that

cohort than the UK Government does through its work and health programme.

We are seeking—again, I will not use the term “to tackle”, because, as I have said, so-called economic inactivity covers a range of activity—to interact with some of the challenges that Mr Lockhart has set out.

I would not like anyone to think that the figures that have come out this morning are anything other than good news for the Scottish labour market. I am sure that Mr Lockhart agrees with that.

Dean Lockhart: I move on to the economic action plan, which takes centre stage in the budget. The budget document states that the action plan

“shows progress in delivering existing actions”.

However, according to the Fraser of Allander institute, there is no analysis in the action plan of any impact of policy in response to new priorities, failures or targets. In other words, it does not have explicit targets, resource allocation or time horizon, as we would expect an action plan to have. Is it fair to call the economic action plan an action plan?

Jamie Hepburn: I think so, but I am always open to suggestions. I would need to hear what yours are before I consider whether they are a fair reflection of what it might be.

Look at what is laid out in the action plan. It includes progressing the Scottish national investment bank and making it operational this year. That will happen. There are also commitments to leveraging an additional £10 million for workforce development through the flexible workforce development fund. That is happening this year. We are continuing to invest in the creation of the national manufacturing institute Scotland; we are increasing infrastructure investment through the delivery of the national infrastructure mission; and we are creating the dedicated website for business support. All those elements are laid out in the economic action plan. I would define those as actions, and action is what we are taking.

Dean Lockhart: I appreciate that long list of initiatives, but it seems to me that—

Jamie Hepburn: I am glad that you recognise that it is a long list, Mr Lockhart.

Dean Lockhart: There is another part to my question. It seems to me that the Scottish Government has moved away from an evidence-based economic policy. The national performance framework no longer includes any specific economic targets that the Scottish Government is working towards. When this Government came to

power, seven economic targets were set up. Evidence to the committee and our report have highlighted that the Government has failed to meet all seven of those targets.

How can you measure the impact, and the success or failure, of policies if you cannot run them against the specific targets that those policies are meant to reach? Why has the Scottish Government moved away from an evidence-based approach to economic policy and can you explain the failure to set targets for its impact?

Jamie Hepburn: Frankly, I do not accept the premise of the question. Not every target that we set will be in the national performance framework, and some targets in that framework relate to economic outcomes. I fundamentally disagree with the premise that we are not working to an evidence base. Everything that we seek to do is based on the recognition that we need to continue to grow our economy and to create a fair work culture within it. That is taken forward in a range of evidence that we have gathered.

Further still, the analytical unit of the enterprise and skills review has undertaken work to embed an evidence-based approach to the strategic board's work—that is utterly linked to the national performance framework. The idea that the Scottish Government and the agencies and bodies that it tasks with supporting the Scottish economy do not work to any form of evidence base does not stand up to scrutiny. Dominic Munro can say more about the work of the strategic board.

Dominic Munro: I will mention two things: first, on your earlier point about the premise of the question, it is important to distinguish between whether we have targets and whether we have an evidence-based approach, as I do not think that targets are a prerequisite for such an approach. Nevertheless, it is worth noting that, even though the headline targets that you referred to have now passed, we still have a number of targets, for example to double research and development by 2025 and to increase our exports to 25 per cent of gross domestic product in the near future. It is fair to say that we retain some targets, but they are not the basis for an evidence-based approach.

Secondly, as the minister has mentioned, the analytical unit, on behalf of the enterprise agencies, is assembling a range of more evaluative evidence to look at the impact of the work that the agencies do on different outcomes. For example, we look at the work of agencies such as Skills Development Scotland and, in higher and further education, the Scottish Funding Council, which have a role in improving the educational outcomes of the people who use the different forms of education in the system. We continue to use that kind of evidence base to drive our broader economic policy.

Jamie Hepburn: On my point about the national performance framework, we define nine fair work and business indicators—number of businesses, high-growth businesses, innovative businesses, economic participation, employees on the living wage, gender pay gap, contractually secure work, employee voice and gender balance in organisations—which could all be fairly assessed as economic measurements at the heart of the national performance framework.

Dean Lockhart: The First Minister said a couple of weeks ago that wellbeing would be at the centre of the Government's policy when it comes to tracking performance. The index of social and economic wellbeing showed a couple of weeks ago that Scotland had slipped down the charts from 16th to 22nd place. First, do you think that that is an acceptable performance? Secondly, what is the Scottish Government's target for Scotland to move back up the wellbeing international table?

11:45

Jamie Hepburn: I am aware of Professor McLaren's work in this area. I welcome any work of that nature that is undertaken, although I am not sure that the work that you are talking about could be defined as an official publication or as a comprehensive and internationally recognised index of wellbeing. However, of course we want to perform better in that regard, and we are undertaking a considerable amount of effort to ensure that we do.

The fair work agenda is an economic imperative, but it is also an imperative in the sense of embedding wellbeing. We want to do better and we are committed to achieving that. However, I am not aware of any particular target having been set in relation to that agenda.

Andy Wightman (Lothian) (Green): I want to ask a few questions about the Scottish national investment bank.

There are level 4 figures for the SNIB budget for 2019-20—for example, there is a figure for the SNIB financial transactions expenditure of £120 million. I presume that that is just labelled as SNIB but is not really SNIB, because SNIB did not exist at that time.

Jamie Hepburn: Can you direct me to the part of the budget that you are referring to?

Andy Wightman: I do not have the budget document in front of me, but I am talking about the level 4 SNIB budget figures.

Jamie Hepburn: Bear with me and I will try to find the reference.

Can you repeat the question?

Andy Wightman: I am talking about the level 4 SNIB budget allocation for 2020-21. We have 2019-20 budget figures for SNIB, but SNIB did not exist then. I am just seeking clarification on that point.

Jamie Hepburn: I see, sorry. You are right. A lot of that relates to activity that was undertaken previously and is now being undertaken by SNIB.

Andy Wightman: How useful is the comparison of the two figures, given that, once it becomes operational, SNIB will be doing more?

Jamie Hepburn: It is useful in so far as we need to demonstrate the type of activity that has been undertaken in order to demonstrate the type of activity that might be undertaken in future. I think that it is useful, anyway.

Andy Wightman: That is fine.

I have a question about the timeline. There is a budget for SNIB of £281 million for 2020-21, and it is going to be operational in 2020. Do you have a date for when it will be operational?

Jamie Hepburn: It will be operational later this year. I do not have a specific date for you.

Andy Wightman: By 1 September?

Jamie Hepburn: That sounds to me like a specific date.

Andy Wightman: Okay, sorry—later this year, then?

Jamie Hepburn: My officials have reminded me that we have said that the Scottish national investment bank will be operational in the second half of 2020. However, that is still not a specific date.

Andy Wightman: That is fine—no problem.

Some of the expenditure that is down for 2020-21 is money that is being spent now on activities that are being undertaken by the Scottish growth fund and Scottish Enterprise and which will be undertaken by the Scottish national investment bank after it is firmly established.

Jamie Hepburn: That is right.

Andy Wightman: With regard to the initial stages of SNIB's operation, the Scottish Government told us that Scottish Enterprise will continue to provide some early stage capital but that, by the end of the transition period, all relevant businesses will have transitioned over. What does that transition period look like? Is it a year? Two years?

Jamie Hepburn: I would be cautious about putting an exact timescale on that, because there will be an on-going and iterative process. It has to happen at a pace that is appropriate and ensures

that businesses continue to be supported in the manner that you would expect.

Of course, there will still be an on-going role for Scottish Enterprise in supporting business through account management in relation to some of the products that it will continue to handle. There will be an on-going process of interaction between Scottish Enterprise and the business community, as you would expect.

Andy Wightman: On the longer-term nature of SNIB, you are in negotiations with HM Treasury about derogations. Can you tell us a bit more about how those discussions are going and say what the implications are for the Scottish reserve if the derogation is not agreed?

Jamie Hepburn: I know that the previous Cabinet Secretary for Finance, Economy and Fair Work corresponded on a number of occasions with the then Chancellor of the Exchequer, Philip Hammond, and the then Chief Secretary to the Treasury, Liz Truss, about the bank being provided with the required derogation. We have engaged on that matter for a while, and such dialogue continues to be undertaken at official level. If more detail is required that we are able to supply, I will be happy to follow up, or to ask officials to follow up, on that in writing.

Andy Wightman: My understanding—

Jamie Hepburn: I think that you are about to ask about the reserve, which I am just coming on to, unless I am mistaken. Did you want to ask about a different issue?

Andy Wightman: No. I understand that granting the required derogation is a straightforward matter for the Treasury, and that that would be notified to the Scottish Government. It is a straightforward decision.

Jamie Hepburn: Yes.

Andy Wightman: You have been in discussion with three UK Government ministers over the past two or three years, and it sounds as though you are getting nowhere. Are you getting anywhere? What are the stumbling blocks? What issues need to be resolved? What undertakings have you been asked to give?

Jamie Hepburn: I have not been leading on the Scottish national investment bank. I commit to following up on that and providing what detail we can.

You are correct to say that derogation should be a fairly simple matter for the UK Government, and I hope that it listens to the point that you have made about that. The dialogue continues, and we hope to get things finalised.

With regard to the operation of the bank, you are correct to say that the Scottish reserve can

kick in, which means that the bank would have to operate in a slightly different way from how we hope that it would, in that expenditure would have to go out the door in any given financial year.

We continue to work to seek the derogation, and I commit to providing more detail on that. I do not know whether Richard Rollison can say any more about the issue at this stage.

Richard Rollison: Mr Wightman is right in that, if the derogation is not granted, a call will be made on the Scottish reserve and the bank will operate in the same way as other public bodies. As Mr Hepburn said, that would mean that the bank would need to deploy its capital in-year, which would result in a more stringent requirement for extremely rigorous monitoring of that finance. In addition, it would probably take longer for the bank to ramp up to its full financial strength.

As Mr Hepburn said, dialogue is still taking place at official level, and that leads into the review of the fiscal framework that is taking place at UK and Scottish Government level. If the issue of derogation could be part of that fiscal framework review, that would help.

Jamie Hepburn: I am happy to commit to providing more by way of an update in writing to the committee if that would be helpful.

Andy Wightman: It would be helpful to get a sense of where we are with that, although I appreciate that officials discuss some confidential matters. I am a bit troubled by the suggestion that the issue of derogation could form part of the discussions on the fiscal framework, because I am not sure that it should form part of those discussions.

Richard Rollison: There is scope for it to form part of those discussions, but I am sure that we would rather that it was agreed now.

Andy Wightman: I want to move on to regional selective assistance, which the committee has taken a look at. We were concerned about the regional imbalances in regional selective assistance spend, which were illustrated in figures that we received from Scottish Enterprise. For example, those figures showed that, between 2016 and 2019, there was no RSA funding at all in Orkney, Western Isles, Argyll and Bute, Clackmannanshire, East Dunbartonshire, Highland, Inverclyde or Moray. We invited the Government to consider setting regional targets. Although the Government did not commit to that, it said that the enterprise agencies would work with and through regional economic partnerships to

“meet the distinct needs and opportunities of each region.”

How are those partnerships working?

Jamie Hepburn: They are at different stages.

I will return to the specifics of regional economic partnerships, but first I would like to respond to the overarching point. Although I understand the request that was made for us to set regional targets, I agree with the point that Ivan McKee made in his response to the pre-budget scrutiny report that the committee helpfully pulled together. In my experience of interacting with businesses, which I do in the course of exercising my business responsibilities for the Government, I do not think that we could operate regional selective assistance on the basis of setting regional targets. Ultimately, RSA is a demand-led product that relies on businesses coming forward with a viable proposition for full consideration.

I would of course be delighted if the parts of the country that have not benefited from regional selective assistance were able to do so. There is scope for the issue to be considered through the development of regional economic partnerships that are designed to be at the grass roots in the sense of being a series of bodies that look different in different regional economies. The process involves local government, the local business community, the Scottish Government enterprise agencies and possibly the tertiary education institutions in the area.

There is scope for our enterprise agencies to engage with those bodies to see what opportunities may exist for a wider range of parts of the country to benefit from regional selective assistance. It would be difficult for us to set regional targets, although I understand why it has been suggested. However, we have committed to ensuring that Scottish Enterprise can provide as much information as possible about where the investment is being made.

Andy Wightman: Scottish Enterprise’s new chief executive has spoken about a place-based approach, and I am aware of criticism that the south-east economy—Edinburgh and the Lothians—is overheating, so we should try to direct investment to the parts of the country that face more economic challenges. RSA is obviously a small part of that, but do you agree with the general principle that we should direct our resource and support to areas of the country that need that help?

Jamie Hepburn: A lot of RSA investment has happened in the wider Glasgow city region—I should declare an interest as a representative of a constituency in that area, which also includes Inverclyde, to which I referred earlier, and Ms Baillie’s constituency. Those parts of the country have particular challenges. It behoves us to respond to those challenges, which we seek to do in a number of ways; the city region deal has been put in place, and a number of approaches for RSA funding have been successful.

Mr Wightman has made the reasonable point that RSA is only a portion of the offering from Scottish Enterprise funding, a lot of which has been directed at the parts of the country that he is rightly concerned about. Incidentally, it is very generous of him, as a representative of the Lothians, to take that wider approach.

Andy Wightman: I am here as a committee member, and this discussion is about the Economy, Energy and Fair Work Committee looking at the economy of Scotland.

The Scottish Government's response to the committee's budget scrutiny work stated that

"Scottish Enterprise has established a Business Response Unit to engage with companies"

that face financial difficulties. How is that going? At how early a stage does engagement take place?

Jamie Hepburn: The engagement ultimately depends on how quickly information is provided to Scottish Enterprise, which is different in each situation. A business with which Scottish Enterprise has had a positive relationship sometimes comes forward very late in the day to say that it has difficulties, which is frustrating for Scottish Enterprise and for me. Other businesses identify early on, which is much more helpful because it gives a longer lead-in time to try to assist. In essence, the response unit is designed to intervene as soon as possible once it becomes clear that intervention is required.

I find the unit enormously beneficial, because it works very closely—hand in hand—with the Scottish Government's business briefing unit when we find circumstances arising that require a concerted approach. Scottish Enterprise and the Scottish Government work closely with the individual business or, in certain circumstances, the administrator for a business that is in a difficult set of circumstances. That leads to more positive outcomes in some cases than in others. The great—

12:00

The Convener: Thank you, minister. I want to move on to other committee members' questions and topics.

Jamie Hepburn: Do I not get to mention the positive example of Arjo Wiggins Fine Papers? We saved that company in Aberdeen through the efforts of that—

The Convener: You have already mentioned numerous examples that you think are positive, so we will move on to Jackie Baillie.

Jamie Hepburn: The workforce there—450 employees—thought that it was a positive outcome too, convener.

Jackie Baillie (Dumbarton) (Lab): I have a couple of quick questions before I move on. On the Scottish national investment bank, how much of the £2 billion is financial transactions money and have you had confirmation that financial transactions money will continue beyond 2021?

Jamie Hepburn: I cannot say for the full £2 billion, but I can tell you that, for this year, there is more than £260 million for financial transactions to help to establish the launch of the bank.

Jackie Baillie: How much is capital that the Scottish Government has put in?

Jamie Hepburn: There is £21 million of resource. I will ask Richard Rollison to respond on capital.

Richard Rollison: The bank will invest through loans or equity in companies or mission-based projects, so it is principally FTs in relation to investment.

Jackie Baillie: So you will be heavily reliant on financial transactions money, but is it true that there has been no confirmation yet—unless you are about to give me good news—that it will continue beyond 2021?

Jamie Hepburn: We are committed to taking forward the bank and we have said that we will capitalise it by £2 billion. We will need to respond to circumstances as we find them.

Jackie Baillie: Do you have a plan B? Do you know where that money will come from if financial transactions money is not forthcoming? I hope that it is but, if it is not, how will you meet that commitment given that you have an upper borrowing limit of £400 million each year and lots of other commitments for infrastructure?

Jamie Hepburn: We are engaged in the process right now and, like you, I hope that we continue to utilise that as an effective and well-established part of the budgeting landscape that has been in place for some time. We will respond to the circumstances that we find ourselves in—for example, that is what we are doing right now with Brexit on a wider basis. That is what we will do as circumstances arise.

Jackie Baillie: My concern is about the lack of a contingency should that situation arise, because it would blow an absolutely huge hole through your plans for a Scottish national investment bank, which the committee has supported. If people want to write to me about a plan B, I would appreciate that.

I will move on to the Scottish growth scheme. A big announcement was made in the programme for government about the Scottish growth scheme being in the order of £500 million to be spent by 2020. Up to December, you had spent 35 per cent

of that. When will you reach the £500 million and what demand stimulation activities are on-going?

Jamie Hepburn: The most recent figures that we released show that £196 million of investment has been realised through the Scottish growth fund. We would all agree that that is a fairly positive figure in relation to investment in the Scottish economy and Scottish businesses.

There have been challenges in realising some of our ambitions for the growth fund. I refer to the comments that I made earlier on speaking to the business community about a series of investment assumptions perhaps being held off because of the wider circumstances around Brexit. That has caused some challenges with traction, but of course we continue to promote the Scottish growth scheme and we rely on our enterprise agencies to actively promote it and its benefits, and on individual Scottish ministers when we engage with the business community.

In the current financial year, between the various ministers in the finance, economy and fair work portfolio, we have had more than 400 visits organised by the business briefing unit, and we are actively promoting the Scottish growth scheme all the time.

Jackie Baillie: I entirely accept that, but the growth scheme was for Brexit; that was the reason behind developing it and we welcomed that at the time. Brexit is now upon us. Do you have a target to get the money out the door by, say, the end of the year? What is the revised profile for spend?

Jamie Hepburn: The mechanism remains in place. We said that it would be in place for three years, and we are doing everything that we can to try to get as much of the money spent as possible through the mechanisms that we have laid out.

Jackie Baillie: So it runs from 2017 to 2020 and will finish this year. It will not be rolled over and there is nothing else.

Jamie Hepburn: No definitive decision has been made in that regard. There is, of course, a new finance secretary in place and she might want to consider that matter in conjunction with the new economy secretary.

Jackie Baillie: So the scheme might end, but we do not know yet.

Jamie Hepburn: As I said, there are new cabinet secretaries in place and they will want to consider those matters in conjunction with each other. Of course, we are moving into the new landscape where the Scottish national investment bank is also in place to try to stimulate the type of activity in question.

Jackie Baillie: My follow-up question might help. The Scottish Government said in its

response to the committee's budget scrutiny that it has no plans to undertake a review of all financial products. However, the former cabinet secretary suggested that a review was forthcoming. Who has got it right, minister?

Jamie Hepburn: I had a look at that and I think that it comes down to a difference of interpretation as to what the cabinet secretary said.

Jackie Baillie: Yes or no: it is pretty black and white.

Jamie Hepburn: I think that the point that the former cabinet secretary was making when he was in post and was before the committee was that it is incumbent on us to constantly review and assess the efficacy of the approach that we take, and I accept that. I think that the former cabinet secretary said that it is right to look at our range of financial products and decide what the appropriate balance might be for the future. That was in response to Mr Lyle. There was a follow-up question, but I am not sure who asked it. However, I think that the point that the former cabinet secretary was making in that context was that we need to review all our financial products anyway. He was not suggesting that there was going to be one specific overarching review.

Jackie Baillie: Let me be very specific then. Will you review the Scottish growth scheme?

Jamie Hepburn: I have made the point already that there are new cabinet secretaries in post, and they might want to consider that.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I want to look at the landscape of business support, and specifically Business Gateway. The committee report on business support highlighted two things about Business Gateway: first, that overall funding had not increased in 10 years; and, secondly, that the landscape was pretty varied in terms of how the different councils approached Business Gateway, what they spent on it and how effective the outcomes were across the country.

The Scottish Government previously informed the committee that it was discussing with the Convention of Scottish Local Authorities the committee's recommendations in relation to Business Gateway. Can you give any further details as to how the Scottish Government plans to address the role of Business Gateway as part of the wider economic development system?

Jamie Hepburn: It is important to remind the committee—if I said anything else, COSLA would quickly follow up and remind you—that Business Gateway is the responsibility of local government. Nonetheless, recognising the points that were made in the review of the landscape of business support that the committee helpfully undertook,

through the strategic board, there has been some work between the enterprise and skills agencies and Business Gateway to consider how the products and services that are in place can be better aligned with one another by looking at some form of shared capacity, shared platforms and shared operational and governance processes to try to make the landscape easier to traverse for businesses.

It will not be readily achieved, because there are obviously complexities involved and, because it is the responsibility of local government, it has to involve local government, which is entirely appropriate and correct. Those discussions continue between the Scottish Government and COSLA and, critically, between the enterprise and skills agencies and Business Gateway.

I will invite Dominic Munro in again, because that has been an area of activity for the strategic board, so he might be able to add a bit more.

Dominic Munro: There are two things to mention. As the minister said, representatives of Business Gateway have come along to strategic board meetings to consider how they can best engage with the agencies. It is worth mentioning that we are actively thinking about how Business Gateway can dovetail with the interface of the new single economic portal, findbusinesssupport.gov.scot, so that businesses get a joined-up service no matter where they are looking for support. It is all about respecting the different governance of Business Gateway in relation to local authorities, as the minister has said. Nevertheless, from the point of view of the user, particularly businesses, it will ensure that they get a joined-up service that cuts across Business Gateway and the different agencies that are overseen by the Scottish Government.

Jamie Hepburn: I have made the point that Business Gateway is a local government responsibility, but we work closely with Business Gateway in a variety of ways. Dominic Munro has expanded on the point about the work with the strategic board, but Business Gateway is also represented on our strategic labour market group and the women in enterprise action group. A lot of joined-up work is being done between us as an Administration and Business Gateway.

Colin Beattie: The committee's report and the evidence that we received indicated that the approach was patchy across the country. How will it be brought together? Business Gateway is an important element in the development of local businesses and of what the Government hopes to achieve, but there is complexity because it is part of local government. Progress has to be made on the issue.

Jamie Hepburn: That goes back to the points that we have already made. That is why it is important to have interaction between the enterprise and skills agencies through the strategic board and Business Gateway. The strategic board is the mechanism that we use to bring together the bodies for which we are responsible in this area of activity, and we recognise that Business Gateway is an essential part of that wider landscape.

We are not trying to bring it within our ambit in the sense of the Government being directly responsible for it. It is appropriate that local government has an important role in this space. It is also important for Business Gateway to be responsive to local circumstances. However, it is about bringing them more closely together to ensure that we have a more coherent system.

We are committed to doing that and we will implement it through the mechanism that has been laid out. I am sure that the committee will continue to take an interest in those matters. Every part of the system that I have laid out, including the Government, will be happy to provide more details.

Colin Beattie: On another facet, the new single entry point online platform that has been developed was launched in January. I believe that the new website exists alongside the other sites that are already there. Nothing has been replaced; it is an additional website.

Jamie Hepburn: Our task is to make it the pre-eminent site and the go-to place for business. By its very nature, the type of support can change, so it will be an on-going process and a series of iterations of the information might be available. We want to promote it as the primary source of information. The site could signpost users to other sources but, at the very least, people in the business community would know that it would be the first place to go if they need information.

12:15

Colin Beattie is right that it is an additional website—there is no denying that. However, it is designed to bring the landscape together to try to ensure that businesses know where to go in the first instance to access the information, advice and support that they need to undertake their business activities and to continue to grow and to employ people in the Scottish economy.

Colin Beattie: There was an expectation that the single point of entry provided by this offering would do away with some of the clutter in the landscape, but the initial indications seem to be that it has not achieved that.

Jamie Hepburn: I do not rule out the possibility that that could happen. There is still an element that is at a development stage. My point is that it will not be fixed at a point in time, but will continue to change and adapt. That could involve streamlining the number of websites out there—I am not saying definitively that it will happen. Our task is to ensure that the new online portal is the primary place where businesses go—at least in the first instance—to get the information, advice and direction that they seek.

The Convener: Our time with the minister is up. I thank him and his team for coming to the committee today.

12:17

Meeting continued in private until 12:36.

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