



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Energy and Fair Work Committee

Tuesday 2 June 2020

Session 5



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ECONOMY, ENERGY AND FAIR WORK COMMITTEE

17th Meeting 2020, Session 5

CONVENER

*Michelle Ballantyne (South Scotland) (Con)

DEPUTY CONVENER

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

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)

*Rhoda Grant (Highlands and Islands) (Lab)

*Alison Harris (Central Scotland) (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:

Gary Gillespie (Scottish Government)

Fiona Hyslop (Cabinet Secretary for Economy, Fair Work and Culture)

Kevin Quinlan (Scottish Government)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

Virtual Meeting

Scottish Parliament
Economy, Energy and Fair Work
Committee

Tuesday 2 June 2020

[The Convener opened the meeting at 09:30]

Decision on Taking Business in
Private

The Convener (Michelle Ballantyne): Good morning. I welcome members, witnesses and those who are joining us online to the Economy, Energy and Fair Work Committee's 17th meeting in 2020. This is our fifth meeting that we have conducted remotely and, on the committee's behalf, I thank the broadcasting team for making it possible.

Under agenda item 1, it is proposed that the committee takes item 4 in private. Given the complexities of holding a group discussion via videoconference, I will assume that all members agree, unless anyone indicates otherwise. I will pause to allow for any objections.

As no member has indicated otherwise, the committee agrees to take item 4 in private.

Covid-19 (Impact on Businesses,
Workers and the Economy)

09:31

The Convener: Item 2, which is our main item of business, is evidence taking as part of our inquiry into the impact of Covid-19 on Scotland's businesses, workers and economy. I am pleased to welcome the Cabinet Secretary for Economy, Fair Work and Culture, Fiona Hyslop, and, from the Scottish Government, Gary Gillespie, who is chief economist, and Kevin Quinlan, who is director for international trade and investment.

I invite the cabinet secretary to make a short opening statement.

The Cabinet Secretary for Economy, Fair Work and Culture (Fiona Hyslop): Thank you, convener, and good morning. I thank the committee for giving me the opportunity to update it on the economic response to Covid-19.

I wrote to the convener on 22 May to provide an update. Today, as well as further updating the committee, I am very keen to hear members' views. This afternoon's debate on the economy will provide another opportunity for the Parliament to express its views on what we should be doing in response to Covid and on what we can do with regard to recovery.

As members realise, the Covid-19 public health crisis is now an economic crisis, and we have to ensure that we support our businesses and carefully restart our economy. As the committee is aware, the Scottish Government has set out an economic plan in four stages: response, reset, restart and recovery.

The response stage has focused on protecting lives, critical services, businesses and household incomes. We have set out a unique package of business support of more than £2.3 billion to reflect the specific needs of Scotland's economy. It includes rates relief, small business grants and specific grants for retail, hospitality and leisure and for seafood and fisheries. The latest information, from one week ago, shows that around £790 million in small grants had been distributed to almost 70,000 businesses; those figures should be updated tomorrow.

The support that we are providing extends beyond the consequentials that the United Kingdom Government has identified and passed on. The Scottish Government has allocated an extra £94 million in addition to the £2.253 billion of business support consequentials that have been identified, bringing the total business support package to £2.347 billion.

For the reset stage, activity has focused on the provision of guidance for different sectors of our economy. We have worked in partnership with a range of bodies, including businesses, business organisations, trade unions and regulators, to prioritise activity based on the phasing that has been set out in “Coronavirus (COVID-19): framework for decision making—Scotland’s route map through and out of the crisis”. We have already published guidance on manufacturing, retail, construction, household waste centres, forestry and the food and drink sector, and we will continue to publish and update guidance in the coming days and weeks.

The restart stage cannot be supported by guidance alone, so we need to ensure that we provide advice, put in place compliance and enforcement measures and take a joined-up approach to workplace public health measures. That is why the joint statement from the Scottish Government, the Health and Safety Executive, Police Scotland and local authorities that was published last week is so important.

The recovery element is an opportunity for us to renew our economy and to build resilience, which will be critical to our forward-looking approach. We need to harness innovation and the skills and strengths of our businesses to ensure that Scotland can thrive and to create the inclusive, net-zero wellbeing economy for which I think there is a consensus in Scotland.

We need to help businesses to innovate and adapt their business models in order to meet changing demand. We also need to ensure that we retrain and reskill people so that they can have good and sustainable jobs. The fair start Scotland fund, which contains £33 million for 2020-21, has been set up to support those who are most vulnerable to Covid-19.

We will be looking to experts—we have set up our independent advisory group on economic recovery to look at all the different aspects and to draw on advice, intelligence and ideas from as many people as possible, and we expect it to publish its recommendations at the end of June.

We are also seeking to collaborate with other Governments in the wellbeing economy network. Scotland is a founding member of the Wellbeing Economy Alliance and, as we go forward, that international perspective will be helpful.

I thank the committee for giving me the opportunity to provide an update. I am interested in the committee’s insights; I will answer your questions to the best of my ability, and I will respond in writing after the meeting to those that I cannot answer directly.

The Convener: Thank you, cabinet secretary.

We move to questions from members; I will take each member in turn. If anybody wishes to ask a supplementary question, they should indicate that to me.

Richard Lyle (Uddingston and Bellshill) (SNP): I know that many businesses have already received funding, and that the cabinet secretary is trying her very best. Nonetheless, I, like all MSPs, have received emails from constituents who do not qualify for support or who are having difficulty in getting any funding package. That includes self-employed wedding planners and photographers, coach companies and small businesses whose staff are working from home.

Given that we are now more than two months into the Covid-19 crisis, can the Scottish Government do any more, as part of the business support measures in its response phase, for businesses that have fallen, or are falling, through the cracks?

Fiona Hyslop: As I have said previously, the Scottish and UK Governments based their plans and responses in respect of grants on the rates system, which meant that action could be taken simply and swiftly. We provided three additional funds—a support fund for the newly self-employed, a hardship fund for the creative, leisure and hospitality sectors and the pivotal enterprise resilience fund—to address the needs of those who were not able to receive funds via the proposed grant scheme.

As I announced in my statement to Parliament last week, we will expand support. Later today, we will give details of a scheme to cover bed-and-breakfast businesses that do not pay rates and businesses in multi-occupied properties. Some of the smaller businesses that Richard Lyle identified might be sharing premises, so they will be able to apply for that support.

At the beginning of lockdown, we moved swiftly to ensure that coach companies were not disadvantaged in particular by the closure of schools. Many coach companies had contracts with local authorities, and the initial cash-flow problems that many businesses experienced meant that those in the public sector were required to honour their commitments to keep funding flowing through the system. I was very keen for coach companies to be supported so that they would continue to have the required capacity for when pupils return to school.

We know that transport issues and social distancing measures will lead to an increased reliance on coaches not just in the education sector but in other sectors. However, Richard Lyle’s point is that there is currently a cash-flow issue as a result of the tourism downturn and the subsequent lack of demand. I am conscious of

those problems. A number of coach companies have applied for funding from our three-pillar scheme in addition to the grants system.

However, it seems from what Richard Lyle said that not all coach companies have necessarily received funding through that route. Some of them may have had residual cash flow to support them through the initial period of lockdown. However, we are conscious that some sectors will restart later than others; that includes the tourism sector, which puts pressure on coach companies.

Fergus Ewing, as Cabinet Secretary for Rural Economy and Tourism, and Michael Matheson, as Cabinet Secretary for Transport, Infrastructure and Connectivity, both have a keen interest in coaches. We are looking at what we can do, if we can find additional funds, to help specific sectors that are important for our economy's needs. Coaches are vital to the operation of much of our economy, and they will continue to be so in future, albeit in a different way. I cannot give Richard Lyle an immediate answer as to what that assistance might be, but I give him a commitment that we are looking at the coach sector in particular.

Richard Lyle: Thank you, cabinet secretary—I am very pleased with that answer. However, there are reports that some councils are refusing funding applications without giving a reason for doing so. Are you satisfied with how local authorities and the enterprise agencies have coped in using their capacity and resources to distribute money through the various funding mechanisms? I know that councils have the money—you have certainly given it to them—but I wonder whether they are getting it out quickly enough.

Fiona Hyslop: Councils are working as best they can. They have had to set up brand-new systems in a matter of weeks, when it would normally take them months to do so. Local authorities are undertaking a huge volume of activity, and I pay tribute to the council workers who are administering the funds. Like many other people, they are working from home, and many of them will have families and will be home schooling.

We can see from the application figures that a number of businesses did not apply for funding right at the beginning. We are therefore looking at a moving target, as the numbers of businesses that are applying change week by week. We may take a decision, as the Welsh Government has done, to close the first phase of grants, which would allow us to identify any additional funds that could go to coach operators or others. We are not in a position to do that right now, because the fund is still open. However, it would not be unreasonable to do as the Welsh have done and

seek to bring the first phase to a close so that we can identify the available resources.

Councils have moved rapidly, but I understand that different councils will have different experiences. For example, at an early stage, Glasgow City Council had an information technology issue, which has now been resolved. There are also differences in how councils manage delivery. A lot of delays occur because an applicant has not provided all the required information, and the council needs to go back to them to get it. It is important that councils get the correct information, because we are talking about taxpayers' money. Fraud is a real issue, and we cannot allow it to enter the system because we need every single penny of that money to go to the right people.

In respect of delivery, councils have achieved what we asked them to. I will be able to provide an update on the enterprise agencies when I receive additional information from them, which I hope will be at lunchtime or in the early afternoon today.

I will make a general point about enterprise companies that might interest the committee. The amount of co-working, co-operation and partnership between the agencies at this time is a blueprint for how we should expect them to work in the future. In the past, one criticism has been that our agencies are not working as laterally as they could.

The administration of the resilience fund, the hardship fund and the fund for the newly self-employed has involved partnership not only between local authorities but primarily between Highlands and Islands Enterprise, the south of Scotland economic partnership, Scottish Enterprise, Creative Scotland and VisitScotland. That is a good model for the future.

09:45

Richard Lyle asked about councils refusing applications without giving people any feedback or explanation. The volume of applications during phase 1 of the grant scheme for small and medium-sized enterprises, which administered grants of £10,000 and £25,000, has presented a challenge. However, when an applicant has appealed a refusal or gone back to the council—as I have done on behalf of constituents—it has sometimes become clear that they did not provide all the necessary information. That particular problem has caused some of the delays. Nonetheless, I encourage councils to provide feedback, although I am not sure that they currently have the resource bandwidth to do so.

With regard to the second phase of the three-pillar support scheme that comprises the hardship fund, the resilience fund and the fund for the newly

self-employed, I know that HIE and SOSEP have followed up their decisions with phone calls and explanations. Scottish Enterprise has not been doing that, but from now on it will explain the criteria to make it easier for applicants to identify why they have not received funds.

The current situation must be challenging even for businesses that have managed to achieve sufficient cash flow to make it through the lockdown period. The fact that the fund is focusing on cases of genuine hardship might be an issue for such companies, and they might find the decisions unfair. We are trying to find ways for Scottish Enterprise to provide feedback on its decisions, and we want people to be aware of the appeals mechanism.

We are very conscious of the issues, and it has been helpful to hear from MSPs and their constituents about what needs to be done to improve the system. It is not perfect—no system that could be established quickly enough to benefit so many people could possibly be as perfect as we would like it to be. We have tacked and changed our plans, just as others have done.

The Convener: Cabinet secretary, I know that it is difficult with such a lot to say, but please try to keep your answers fairly succinct; otherwise, we will struggle to get through everyone's questions.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): In your letter to the committee you talked about the reset phase, and you mentioned response, reset, restart and recovery in your opening remarks. You talked about the need in the reset phase to identify requirements for regional support in Scotland. Can you give us a flavour of how that is progressing and the sort of regional support measures that you are considering?

Fiona Hyslop: There are different sides to the approach. On the grants system and response, we were looking to ensure that there was geographical spread. That is why there is that partnership between agencies, to ensure that the Highlands and Islands and the south of Scotland receive the support that they need and that it is not all centred on where the bulk of the population of businesses are located.

On reset, the approach is to identify particular weaknesses or areas that have been affected more severely. Clearly, some areas, such as seafood production, have been affected more seriously because of the collapse in demand. Another example might be tourism. At some point the committee might want to hear from Fergus Ewing, Cabinet Secretary for Rural Economy and Tourism, about our contact with the tourism sector. That affects particular areas—especially the south of Scotland and the Highlands and Islands.

If we are resetting and planning for the future, we need to ask whether there are parts of the economy or geographical areas where we need to think things through. Some of the energy transition is also being done on a geographic basis.

There is another serious issue. Not only must we look at the regional impact of Covid; if the UK Government does not achieve a deal with the European Union over Brexit and we career towards a no-deal Brexit, we know from the no-deal planning that we did previously that certain parts of the economy, such as food and drink, and certain regions would be affected more than others. I am therefore concerned that there might be a double impact on certain regions, such as those that are reliant on the food and drink economy. A lot depends on what happens over the next few weeks—the 1 July deadline is not far away—and we see whether there is an extension to the deadline or the threat of having no deal. We have to overlay both those factors in our work.

We have also asked the economic advisory group to look at having a regional focus, and we expect that to be part of its response.

Willie Coffey: Are there any figures that would help us to estimate the kind of impact that a no-deal Brexit could have on Scotland's regions?

Fiona Hyslop: I will ask the chief economist, Gary Gillespie, to come in on this, too.

We have looked at figures for support related to Covid-19 on a sectoral basis. Some geographical parts and sectors in Scotland are more reliant on support than others, and we have to factor that in. We did some no-deal planning previously in relation to Brexit, and we will have to come back to that; Michael Russell will explain some of that in his statement tomorrow.

Convener, with your permission, I will bring in our chief economist Gary Gillespie to give a perspective on the information that we have on the impact on the economy of both Covid-19 and a potential no-deal Brexit.

The Convener: Absolutely. Gary Gillespie, would you like to come in?

Gary Gillespie (Scottish Government): Thank you, convener.

Covid-19 has obviously had a major impact on the economy, and we have done some internal modelling on the shape of the recovery. In response to the point about Brexit, we know that the UK will formally end the transition period as planned on 1 January 2021, and there is a question whether a further extension will be requested or granted.

Our modelling suggests that a 1 January exit would bring additional frictions to the economy:

additional costs to trade or through regulation in relation to whatever agreements are made. Essentially, that could cost up to 1 to 2 per cent of gross domestic product. That impact would be felt over and above the type and shape of recovery that we will face from the pandemic, the uncertainty about a W-shaped recovery and related issues.

That is some of the illustrated modelling that we have done—I will stop at that point.

Fiona Hyslop: The combination of those two factors, and particularly a no-deal Brexit if that transpires, would compound what is already a difficult situation because of the pandemic. Regardless of our views on Brexit, there is concern that a no-deal Brexit could further impact the economy.

The other point that I am not sure we have relayed to the committee—although Gary Gillespie will have covered it in other information—is about the financial crash. Our understanding is that there was a 5 per cent reduction in GDP over the first four quarters of that crisis. With the severity of the crisis that we are facing now because of Covid-19, we anticipate a 33 per cent reduction in GDP across the UK during the period of closure. The shape of the current crisis is quite different.

Gary Gillespie referred to the potential types of response. At one point, analysis predicted that the recovery would be a sharp V-shaped dip and that demand would then come back. Just now, we are facing a reduction not only in local demand but in global demand. There is therefore a possibility that, with restructuring and other changes, we will have a W-shaped recovery.

The timing of that recovery compared to the dates for a potential Brexit is something that not only the Scottish Government but the UK Government will have to factor into their responses. The Scottish Government's position is clear that we need an extension precisely because, whatever people's views were on the Brexit timetable previously, having to deal with the Covid-19 crisis on top of it brings very big challenges indeed.

Willie Coffey: Thank you.

Alison Harris (Central Scotland) (Con): Good morning, cabinet secretary. I will ask about sector reopening guidance. There is a lot of confusion and anxiety among businesses that do not fit neatly into any particular sector or that sit across more than one sector. What guidance should those businesses follow? How will the sector guidance be monitored and who will enforce that? Finally, businesses have also called for the Scottish Government to be much more transparent in the development of sector guidance. What are the cabinet secretary's views on that?

Fiona Hyslop: I think that it was the Confederation of British Industry that asked for more transparency. As I explained to it, this is not about restart or about how businesses or sectors will come back; it is actually about what makes workplaces safe, and there is extensive business involvement in that work. For example, Diageo is involved from the manufacturing sector, we have major companies such as Balfour Beatty involved from the construction sector, and there are other sector leads. When I explained that, the CBI was reassured that the workplace guidance has heavy involvement from business, as it should do.

I want to ensure that the business organisations are involved in creating the advice about how to come back profitably. We can make workplaces physically safe, and we can give guidance, however challenging that might be, but what is important is the operating margin and the ability of a company to follow that guidance and still keep its business going as we move out of the furlough scheme and the very welcome job retention scheme. We have asked for restart flexibility to allow companies to come back gradually. That is what I am asking business organisations to help to provide advice about.

There are several points about sector-by-sector guidance. The UK Government produced helpful guidance for types of workplaces, but that was not enough. We need sector-by-sector guidance. I have been suggesting that for weeks, and the UK Government is now providing it. I am pleased that it is embracing that provision. The guidance is important because, if it is put together by businesses and trade unions, it will create confidence and will bring staff and customers back to businesses.

If there are issues for specific companies deciding which sector guidance they should follow, there is also what I am calling the advice, monitoring and enforcement pillar. Within that, we explain what employers should know, and we give contact details for advice lines that can help employers to understand which guidance they should follow. Anyone who looks at the Scottish Government website under "find business support" will be able to find the links there.

When it comes to monitoring and enforcement, the Health and Safety Executive has been clear that it wants to be able to enforce health and safety issues by using existing legislation. A joint statement was produced on how the HSE will operate alongside local authority environmental standards teams, the police and ourselves in the Scottish Government. That was published last week.

The question was also about the advice that businesses will need and which type of guidance to use. That will have to evolve: we are legally

required to revise the guidance every three weeks. On retail, for example, I know that there is continuing work to improve the guidance. If we can identify businesses that do not fit easily into one type, we can ensure that we can capture those companies when we make the continuous improvements to the guidance.

Alison Harris: Last week, the committee heard from the advisory group on economic recovery. Both the Fraser of Allander institute and the Scottish Chambers of Commerce are concerned about the group being yet another advisory group producing high-level statements about direction but lacking the responsibility to provide specific, practical recommendations. The evidence that we heard from the advisory group seemed to confirm that that would be the case. What is your view on that, cabinet secretary?

Fiona Hyslop: I would give that group the credit of waiting to see its report before you criticise it. I believe that we should work with experts, and the remit that we gave the advisory committee was quite specific. The group is to look at regional responses and sectoral areas, and it is to look at the recovery advice for specific areas. I expect the report to make specific recommendations.

Advisors advise and ministers decide. The group has taken extensive research papers and has had suggestions from a wide range of people. There have been 270 responses, and in those responses—for example, I read the Scottish Retail Consortium's input to the advisory group last night—there are specific asks and there are practical suggestions.

By convening the advisory group, we are able to bring together the intelligence and the business experience in Scotland—Lord Smith has been engaging with business organisations extensively. The group will also cover aspects such as the sustainable economy, biodiversity and the green recovery, as well as wellbeing. It will be extensive.

We need to have an understanding of the principles under which we want to operate. There is nothing wrong with advising on principles because that allows the country to gather round and implement them. There is no monopoly on ideas—absolutely not; it will take everybody putting their shoulders to the wheel. This committee also has its responsibilities and I am sure that plenty of insight and ideas will come from it. Let us be generous in our criticism and ensure that we have a culture that involves everybody. I am looking forward to talking to the Fraser of Allander institute—I think tomorrow morning.

Alison Harris: Thank you.

10:00

The Convener: We move to Colin Beattie. I hope that he is with us.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Thank you, convener.

Cabinet secretary, the Covid-19 crisis obviously has huge implications for public finances, with decreased tax revenues and increases in both welfare spending and Government borrowing. What implications does that have for the fiscal framework?

Fiona Hyslop: It is very serious indeed. The issue falls more in the territory of Kate Forbes, the Cabinet Secretary for Finance, in terms of analysing the implications for our taxation framework and the resources that we will have from either the UK Government or ourselves. It is clear that the current arrangements cannot bear the weight of a crisis like Covid or what is potentially coming down the track in relation to Brexit.

The opportunities for Governments to use borrowing at this time are extensive. Not only is the UK Government borrowing to fund the very welcome job retention scheme but countries across the globe are doing that. Particularly with the low interest rates that there are just now, it is a much easier proposition.

The situation for the Scottish Government is more challenging because we are very restricted in the borrowing that we can do. That limits our room for manoeuvre in the recovery phase, and we will need some active engagement to provide some changes. Independent states the world over can make decisions and use all the macro and fiscal elements. I am not necessarily making a constitutional point, but the limits of devolution mean that there are limits to what we can do.

It is probably in the interests of the UK Government as well as the Scottish Government to provide opportunities for more flexibility within the fiscal framework, if we want devolution to work. I know that the committee will be hearing further from the finance secretary, which may be helpful to you on that area.

I should have said at the beginning that Gary Gillespie might have helpful comments for the committee on the current operation of the fiscal framework and the limits that it puts on us. I am conscious, convener, that I should have indicated that I might want to bring him in at the beginning of my answer. I hope that, in saying that, I have given the broadcasters an opportunity to locate Gary Gillespie.

The Convener: Does Gary Gillespie want to add anything to that answer?

Gary Gillespie: I will be brief. The fiscal framework was designed as a system that picked up differences in the relative performance of the economy between Scotland and the UK, and there were additional powers, or latitudes, for borrowing where growth rates differed a bit.

The scale of what we are facing in the economy during the lockdown period, with nearly a third of output not active, and the differences across different parts of the UK, mean that the system needs to be adjusted to be more flexible. There is probably greater scope for adjusting how it interacts with borrowing powers and some of the treatment of public bodies in Scotland, which score against the Scottish Government. With a little flexibility, there could be greater leverage and more devolution of powers to the Scottish Government, which would help to support investment across different aspects of the economy.

It is worth noting that the fiscal framework is part of the UK's wider borrowing. The April figures showed that that was a record month, with the UK borrowing over £60 billion. That is equivalent to all the borrowing for 2019 to 2020. The debt-to-GDP ratio is approaching 100 per cent. I mention those figures because they should not curtail the fiscal framework flexibility. Managing long-term debt must be done in a different way, and not as it was in the previous financial crisis.

The Convener: Colin, did you want to come back in?

Colin Beattie: Just—[*Temporary loss of sound.*]

The Convener: Your microphone has gone off. Hold on. Can you check your microphone?

Colin Beattie: Can you hear me?

The Convener: You are back on.

Colin Beattie: Good—[*Temporary loss of sound.*]

The Convener: You have gone off again. Hang on, Colin.

Broadcasting, can we make sure that Colin Beattie's microphone is on, please?

Try again, Colin.

Colin Beattie: Just—[*Temporary loss of sound.*]

The Convener: Colin, I am going to stop you again. For some reason, every time you speak, your mute goes on. Are you leaning on your computer?

Colin Beattie: I do not have a mute button on my computer.

The Convener: Try again. You are back now.

Colin Beattie: I wanted to pick up on something that the cabinet secretary referred to earlier—[*Temporary loss of sound.*]

The Convener: Colin, I am afraid that we have lost you again. I will go to Dean Lockhart, who wanted to ask a supplementary question, and I hope that broadcasting can sort you out in the meantime.

Dean Lockhart (Mid Scotland and Fife) (Con): I hope that my microphone will be more successful. Good morning, cabinet secretary.

I would like to follow up on the question about public finances. Recent figures show that the UK Government has spent more than £10 billion in Covid support for Scotland, including the world's most generous job retention scheme, which you mentioned earlier. I know that you have called for even more spending from the UK Government. It, like any other Government, must balance how much economic support the country needs and how much borrowing is sustainable, given the huge amounts of borrowing required.

Has the Scottish Government carried out a similar analysis of how much it would have been able to spend on the Covid crisis, assuming full fiscal autonomy here in Scotland, especially bearing in mind that the fiscal deficit in Scotland before the Covid crisis was 7 per cent of GDP, which was one of the highest levels in Europe?

Fiona Hyslop: As I set out, every country in the world is responding to the Covid crisis, and countries are doing so in similar ways. Many other countries had already implemented a job retention scheme or a wage subsidy as part of their response. In my conversations with the UK Government prior to any announcement that it made, I suggested that it was important to have some kind of wage subsidy.

The job retention scheme has been very welcome. As you said, it is one of the world's strongest such schemes. We have asked for improvements in the scheme, and there is nothing wrong with doing so. We would like to have flexibility to help people gradually restart work. The margins for that could be challenging for some sectors.

Have we asked the UK Government for more support in particular areas? Yes, because there are aspects of the Scottish economy that will require longer-term support. One is the tourism sector. We know that, even if tourism businesses can come back and have a summer season, their margins will be challenging. We must keep that capacity because tourism is a very important part of our economy.

We are part of the UK. Some of us have views on whether we want to be part of the UK. I believe

in independence for Scotland, but I am not taking this as a political challenge. I am not spending time addressing political arguments, because I do not think that the Scottish people will thank us for that. We should not be spending all our time and effort doing a retrospective analysis of what we could have done and when; the Scottish people want to know here and now how we are supporting them. I will not be drawn into your constitutional debate precisely because the responsibility of my job is to ensure that we can support people now, under the provisions that we have. That is what they expect of us.

I am working co-operatively with the UK Government and I intend to continue doing that. Among Scotland's specific interests that we have requested the UK Government to look at, oil and gas is another area that has been affected by Covid-19; it also has issues because of the price of oil, which is causing difficulties for that sector. We should be looking at whether we can continue some kind of wage subsidy support for those sectors. Supporting the oil and gas sector is important because of the energy transition. We know that the supply chains that are so crucial in that sector are important for capacity. We need to retain those skills for when the energy transition happens.

Mr Lockhart mentioned £10 billion when he was talking about resources—well, that is what states can do when they have the powers and the leverage to borrow on the market. Other countries have also done that. The chief economist has just talked about the level of the UK's borrowing, which is helping to support very welcome interventions—for example, I appreciate how important the job retention scheme is—and that borrowing was the equivalent in one month to what was borrowed for the whole of last year. The dynamic of not only devolved or national but global markets in relation to borrowing has completely changed. As of now, we need to focus on the here and now and what we can deliver, which is my responsibility as economy secretary, and I will continue to do that.

Dean Lockhart: I was not making a political point; it was more of a financial and economic question. You said earlier that some modelling has been done on the potential impact of Brexit in different scenarios. My question was whether any modelling, similar to the modelling that has been done on Brexit, has been done as to what level of funding and support the Scottish Government could have delivered to the Scottish economy on a stand-alone fiscal basis? If the answer is that that work has not been done, that is fine.

Fiona Hyslop: It is not a priority for us. As of this moment, we would be very similar to other countries such as Denmark, Finland and Ireland. My concern on the point about the immediacy of

the issue is that the threat of a no-deal Brexit will also have a major impact. We will know very soon if no extension is provided and if an agreement cannot be reached. We have to deal with the here and now—that is what we are working on for our financial modelling.

The Convener: Gary Gillespie indicated that this is about feeding into the discussion—[*Temporary loss of sound*—how it might operate and that, had we had borrowing powers, that would have enabled us to respond to the crisis. My question is simple: are you both suggesting that, had Scotland had borrowing powers within the fiscal framework, we would have borrowed above and beyond the £3.7 billion that has come directly to Scotland from the UK Barnett consequentials, and on top of the job retention scheme that is being paid directly by the UK Government to Scottish employers? Are you talking about using additional borrowing, or about looking for a change so that Scotland could have borrowed all that money independently? I am slightly confused as to what you are both suggesting, and whether you are saying that the money would be additional to, or instead of, what the UK Government is doing.

Fiona Hyslop: I did not bring that point into the conversation—Dean Lockhart did. You could do that by using different models. Borrowing as an independent state as the UK is doing is one type of borrowing and you can support the economy using those powers—

10:15

The Convener: Can I intervene? This is not about whether Scotland is independent; it is about changing the fiscal framework or feeding into it as a way of resolving this crisis. [*Temporary loss of sound.*]

Fiona Hyslop: Sorry, convener, there is a break-up in the sound.

I will try to address your point on the fiscal framework specifically. The fiscal framework needs to be revised—there is reasonable consensus about that. In answer to your question on what we would do with it, I am very conscious that there was an immediate response. We can make a judgment on whether we would have wanted to borrow more at the response stage.

Earlier, I indicated that the strength of borrowing would be for future growth and recovery, because a lot of the support from it will go into growth sectors and areas such as energy transition, which is about economic recovery and not just coping with the current situation. However, flexibilities allow choices about what we can do, which could be dealing with the immediate response through grants. We have worked very hard to deliver the grants system that we have now. I think that

borrowing is particularly helpful for the future foundations of economic growth, because of the support that it provides for companies and their growth.

The challenge that we are going to have in the revised budget situation is how we identify the funding to support businesses in which we might want to do some investment and development. That applies particularly in the energy transition area, in new-start businesses and in some tech companies.

A practical example of that comes from looking at some new-start companies. The UK Government has put together a futures fund, which is very welcome—I called for it to do that way back at the beginning of lockdown, because we knew that that would be a challenge. There is £250 million in match funding from the UK Government to support new-start companies. The fund requires every company that applies for it to have had a £250,000 investment from private sector sources prior to application. Wales and Northern Ireland also have concerns about that, because the scale that the fund is operating at limits involvement to companies that are, by and large, based in London and the south-east. We need some flexibility to allow choices to be made as to how we support new-start companies, and some of that will be about using borrowing powers so that we are able to support an economic growth restart.

Borrowing to support basic services is another factor that relates to the fiscal framework. Borrowing might be needed for some of our public finance areas, depending on the choices that we make going forward. It all comes back to the choices that we want to make and where we want to put our resources.

As the economy secretary, I am very keen to ensure that we have enough resources to help us with our economic activity. However, if you talk to the Cabinet Secretary for Finance, she will probably take a more overarching view as to the flexibility that we need to help with some of the ongoing issues—for example, for our universities and heritage, which are devolved.

Currently, I am also wrestling with how we can give support. As long as the National Trust for Scotland and Historic Environment Scotland ensure that they do not make half of their staff redundant, we are considering how we can use endowments to help support those organisations and others in that area, because we know that they have a long-term future and that demand for them will come back at some point, but they have an immediate crisis. We are considering how we can support them.

We have tried to use endowment fund models to do that. An endowment model was used for Abbotsford house, which some of you will be familiar with. That involved a provision of resource that was backed by lending from the Scottish Government in a direct way. However, in the wider fiscal framework, there is a difference between borrowing for specific projects when the Scottish Government has the resource, and borrowing to underpin the economy and society. The flexibility of the latter of those will help us—in practical steps—with the former.

In my answers, I have given you some examples in which the capacity for more borrowing powers will allow devolved Governments themselves to think about how they might want to use the resources.

The Convener: I can see that we have Colin Beattie back again. We will go back to him so that he can finish what he tried to say earlier—I hope that his microphone will now stay on.

Colin Beattie: Thank you, convener.

I missed a wee bit of the conversation, so I apologise if I am repeating what has been said. Recently, the cabinet secretary said:

“The time of a wellbeing economy has well and truly arrived”.—[*Official Report*, 26 May 2020; c 32.]

What specific policies are you thinking of introducing in order to move Scotland towards having a wellbeing economy?

Fiona Hyslop: The Scottish Government was one of those that first established the group of wellbeing economy Governments.

Instead of measuring success simply by, for example, GDP—particularly given that there could be a collapse in GDP of 33 per cent—we might want to look at different relative measures of success. Because of the Covid-19 experience, people have a different perspective of how useful GDP is as a measure of what we are trying to achieve. A wellbeing economy means moving to a more values-based view of what we want as a society, and it means more inclusive growth. We know that we cannot improve our economy if we cannot take everybody with us as part of the inclusive growth agenda, because the disparities and inequalities undermine what we are trying to achieve in the economy. That will be very challenging, especially when we have more youth and female unemployment, which is one of the issues that we have to face immediately.

A wellbeing economy also means looking at how we can develop measures of improvement in relation to a net zero economy. Even though our climate change plan that was due to be produced has had to be delayed, that does not necessarily mean that the actions need to be delayed. As

economy secretary, I am very keen for such actions to be brought forward if anything.

A wellbeing economy means a different type of society. We have been working with Iceland and New Zealand, in particular, but other countries are starting to become involved. When Finland held the presidency of the Council of the European Union, it took part in a session that the Scottish Government convened in Scotland house in Brussels to look at its interests in relation to a wellbeing economy.

With the convener's permission, I will bring in Gary Gillespie to talk about the more recent contact that has taken place during the lockdown period between the Scottish Government and the other wellbeing Governments, which face similar Covid-19-related challenges to those that we are facing.

Gary Gillespie: As the cabinet secretary has indicated, we had a meeting with the Governments of Iceland, New Zealand, Finland and Wales on 28 April. We also had expert input from the Organisation for Economic Co-operation and Development and Martine Durand from the Council of Economic Advisers. The wellbeing economy initiative is looking at economic wellbeing, societal wellbeing and environmental wellbeing, and at how we bring those together. The OECD has led a lot of the initial work in relation to the better life index and the framework for how we assess the overall performance of an economy.

At the meeting at the end of April, we discussed three things: the response to the pandemic, the immediate response across the economic, social and environmental landscape and how countries thought that immediate response would feed into a more sustainable wellbeing-based future. Each country has a performance framework: Scotland has the national performance framework, New Zealand has the better life index, Wales has the future generations framework and Iceland has a wellbeing framework. It is about understanding how the interaction between wellbeing and the pandemic impacts on the economy.

It was interesting that there was a consensus that, although the pandemic is a health crisis first and foremost, we have to look carefully at what is happening below that in relation to economic sustainability and societal and environmental impacts, which remain ever present. The key message that came out of the meeting was that there is an opportunity to accelerate some trends in the economy and to look at things that we perhaps could not have tackled as strongly or as quickly. Trends are moving in relation to transport modes and how people work and operate. Certain aspects of social capital are increasing. Trust in Government and community wellbeing have also

been affected. On that basis, there is an opportunity to rethink how we operate the economy.

A meeting is scheduled again in the next couple of weeks to look at how we will restart the economies and how we will build a longer-term vision as part of that.

We get a lot of interest from different countries around the world about the practical steps that they can take. One of the first steps is, obviously, to have a broad enough framework to encapsulate the three different types of wellbeing and a framework for how to measure and translate that. We are learning a lot from New Zealand about how it prioritises wellbeing, brings it into their budget application and brings in evidence to manage the trade-offs that are involved.

Colin Beattie: I will leave it at that.

Dean Lockhart: As the cabinet secretary knows, countries across the world are reallocating their budgets as a result of the Covid-19 crisis. The enterprise budget in Scotland amounts to approximately £500 million if you add in the budget for the Scottish National Investment Bank and financial transactions money from the UK Treasury. How is it being reallocated to deal with the crisis and how much of the £500 million has been allocated to help existing business get through it?

Fiona Hyslop: We issued a revised interim letter of guidance in April, because we clearly had to alert all enterprise agencies that we would need them to pivot and identify what they would need to reorganise to help support businesses in the Covid-19 crisis. Advice has been extensive in that area, through the initial establishment of the findbusinesssupport.gov.scot website, phone support and additional information.

With regard to what that budget can buy, growth areas had commitments in place that will still be important—even more so, in fact—because we have to ensure that growth sectors are developing. It is fair to say that, originally, the enterprise agencies thought that companies would cancel plans because of Covid-19, but that has not necessarily happened to the extent that they thought. Dean Lockhart makes a good point on reallocation: I have asked the agencies to assess how much of the budget can be repurposed and how much work we need to continue and in what area.

Mr Lockhart mentioned the SNIB which, with a mission-based approach, will become even more important, as will be the use of financial transactions within it. We are now trying to assess where companies are that can continue to develop, but a lot of Scottish Enterprise's time will be focused on support for companies that are

potentially in a difficult situation. We have always done that, but we will have a reality check and, even with the best will in the world, not all companies will be able to survive. Therefore, we have to help those that we can and support and reposition the workers who are being made redundant.

There is a shift and a pivot in how the enterprise companies are servicing and supporting businesses. We are assessing what funding can be released for different areas. It would not be wise to renege on commitments that we have made to companies in the growth sectors, because they will be the companies that will have jobs in the future. We need to ensure that we have growth companies in order to face large-scale unemployment, particularly for young people. It is an important question to which I cannot give a definitive answer, but that gives Mr Lockhart a sense of what we are trying to do with that priority.

Dean Lockhart: The UK Treasury is, as the cabinet secretary knows, embarking on a massive recapitalisation programme—project birch—which will see billions of pounds coming to businesses across the UK in the form of equity and debt investment. What steps is the Scottish Government taking to identify those companies in Scotland that are critical to the economy but which might not survive because of Covid-19?

10:30

Fiona Hyslop: We are looking at that. It is a real priority for the enterprise agencies; indeed, I was involved in a meeting just yesterday to look at the mechanisms and systems to monitor, track and get intelligence on the companies that would need support, for example from recapitalisation and equity stakes. The UK Government has not taken that off the table, which hints that it may look at those areas.

I have a weekly call with Nadhim Zahawi at the Department for Business, Energy and Industrial Strategy and with the chancellor on the economy and business group.

The initial focus has been on the [*Temporary loss of sound.*]. We are now focusing on recovery. We are looking at some of the larger companies in the Scottish economy. We are also working with them and have that official-to-official contact in relation to some of the key companies in Scotland's economy that are vulnerable—threatened is too strong a word.

You are quite aware of aviation and aerospace issues, which are significant. There are also issues in other parts of the UK, particularly in steel, where individual companies are being looked at very carefully by the UK Government. We are liaising with the UK Government and, in

one of my early calls with Nadhim Zahawi, I asked for close contact to be maintained, because recapitalisations will be required.

This is an area that I would like Scotland to do more on because, again, it would help us with the growth agenda. As Dean Lockhart says, we need to ensure that we keep businesses going, and what they are looking for is an injection of equity in some shape or form. That is a big agenda item for me. Along with Kate Forbes, I have been heavily involved in the grants and response area, but my attention will increasingly be on exactly the territory that Dean has referred to.

Dean Lockhart: My final question is on the Scottish advisory group on economic recovery and its recommendations. When do you expect the recommendations to be available, and will they be publicly available?

Fiona Hyslop: Absolutely. We have got to be as transparent as possible. We are expecting the report to be published towards the end of June.

Depending on the parliamentary timetable, I am keen that there should be an open debate on the report when it is published. Obviously, we need to work on the timescale with the Parliamentary Bureau. We need to be as open as possible to make sure that people can not only debate the report, say what they think about it and challenge it, but contribute alternative ideas. The ideas that will come through from the advisory group's extensive engagement will also be helpful.

As well as the advisory group, I spend a lot of time talking to many organisations, businesses and wider groups. For example I talked to Scottish Environment LINK the other day. There is a real interest in how we can capture some of the empowerment agenda for change in communities. We need to facilitate that as one of the ways that we can develop as an economy going forward, if we are truly to be a wellbeing economy.

I hope that Dean Lockhart gets a chance to analyse and contribute to the report. He might want to speak to his party's business manager to help ensure that we get a debate at some point.

Dean Lockhart: That sounds good. Thank you.

Rhoda Grant (Highlands and Islands) (Lab): Cabinet secretary, you talked about inclusive growth and the impact of the pandemic on young people and women. The low paid are also being badly affected. Have you considered a job guarantee scheme? Have you looked at ways in which the modern apprenticeship system can be adapted to meet the challenges? What are your instructions to Skills Development Scotland?

Fiona Hyslop: You raise a hugely important area. I am very concerned about the impact on

young people, which will be immediate—there are, of course, school leavers this year.

I know that the developing the young workforce programme is very focused on the issue. The First Minister announced last month that Nora Senior will lead the Enterprise and Skills Strategic Board. Nora Senior will also chair a sub-group that will look at the employability and skills support that we will need to address the issue that you raised. We will need to have something at scale, which will be a challenge. We also know that there is a role for the colleges in retraining and reskilling.

There are always challenges for modern apprenticeships at a time of crisis. I know that because I was directly involved as a minister during the financial crisis, when we moved from having the 10,000 apprentices that we inherited from the previous Scottish Executive up to about 25,000—in fact, we went further than that. Supporting young people into employment is critical, and we will need to look at what is feasible to guarantee longer-term support and ensure that they do not slip out of education, employment or training, and I am concerned about doing something that is just short term.

The apprenticeship model is a strong model. During the financial crash, we looked at support for apprenticeships. For example, we looked at support for the apprentices who were in manufacturing companies that closed and whether they could be taken on by anyone else. We developed the adopt-an-apprentice scheme, which we might need to bring back—I do not think that it went away, but there has been less demand for it—so that people can complete their apprenticeships. Those are all areas that Skills Development Scotland, and Nora Senior, will act on when we get the group's report and recommendations.

Looking at our financial provision, there is little headroom to do additional work at this stage. We will have to look carefully at that. We have £33 million from the fair start Scotland fund but, again, it will have to be pivoted to ensure that it can support the demands that the Covid crisis will bring. I will be working with John Swinney on that, and Jamie Hepburn, the Minister for Business, Fair Work and Skills, will take a lead to make sure that Skills Development Scotland reorganises what it is doing.

Some SDS programmes will not be appropriate at this time; there will be less demand for them. It will be a case of considering how we can use SDS's existing budget and of changing it to help to meet the needs of young people in particular. We focused on the issue after the financial crash, but we will be working to a completely different scale from what we did during the financial crash and the crisis thereafter, when we managed to move

Scotland from having a lot of challenging youth employment to having the lowest youth unemployment in Europe.

Like me, Rhoda Grant will remember the level of unemployment in the 1980s. We might get to that level during the pandemic. If we get to an unemployment level of 10 per cent, the impact on young people will be devastating.

We all have a responsibility to respond to the situation. We should support the growth companies that I talked about, and the companies that are still able to deliver, and deliver well, to take on young people. However, we cannot guarantee jobs if the jobs are not there. We need to support companies to provide jobs, and we need to expand provision, particularly for young people. There will need to be a bit of a national mission and national support to ensure that we do not have a lost generation such as the lost generations that we have seen previously in this country.

I give you my commitment and that of the Government that we see the issue as a priority. The labour market and issues around skills will increasingly move up the agenda. I am sure that the committee will want to give more attention to those issues, too.

Rhoda Grant: The cabinet secretary mentioned the 1980s. One of the systems in place in the 1980s involved community projects, where people were guaranteed a job with fair pay and did work that was good for the community. Community projects could lend themselves to environmental work—people are talking about increasing paths for walking and cycling, for example.

The companies that were growth industries prior to the pandemic may not be growth industries post-pandemic, because we have seen a big shift.

We had evidence last week about education maintenance allowances for people who are in school and university—in the education system—for a little while longer while the recovery happens.

Are those all things that you have considered?

Fiona Hyslop: Yes, indeed. On your final point, I have been a big supporter of the education maintenance allowance. Ten years ago, there was a bit of pressure as to whether we should maintain it—as you will know, it was removed in England. At the time, it was seen as a very important tool to help young people from financially disadvantaged families stay in education, even if it kept them there for only a couple of years. That is why high numbers of young people have stayed in education and gone on to sixth year.

A blended model is a real challenge for a young person who is going into sixth year. What will that look like? It is different from the full-time education

of 10 years ago, when someone stayed at school, supported by the education maintenance allowance. There is a big role for colleges, as there has been in the past. They will be key in supporting young people, particularly those whom you are talking about, who are potential school leavers.

Your point about community projects is well made. A green recovery will not be only about large companies and energy transition; there is so much that we can do in our environment to help that green recovery and deliver our climate change and biodiversity targets.

I am very interested in the New Zealand wellbeing model of the four capitals: financial capital, natural capital, human capital and social capital. Bringing those together would be effective in helping us to meet our targets and showing what our inclusive and sustainable net-zero projects could look like.

At the same time, we have a responsibility to look at renewables and digital roll-out, and at whether training schemes and support mechanisms can be put in place so that companies in the energy market, in particular, can take on far larger numbers of young people than they did previously. There is a lot in there—there are a lot of things that we can do.

A community-based approach would be strong and powerful. I think that we all recognise the strength of our local communities in responding socially to helping people in a health crisis. We now need the same approach in the economy, and, as you suggest, we need to reflect on what has worked in the past and whether we can think about using those things again.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Social distancing has had a huge impact across our economy, from public transport to retail and tourism, which are all important sectors for Edinburgh. The policy was brought in to protect lives. Will you say a bit more about how the Scottish Government plans to restart the economy while trying to avoid a second peak of the virus?

Fiona Hyslop: That is the key question. I will be blunt: if people's personal behaviour in their travel, their contacts and how they go about their activities in phase 1 is not successful, that will not help our economy. Restarting our economy depends absolutely on everybody abiding by the phase 1 rules on physical distancing, particularly in their travel.

We know that there are particular pressures on our tourism sector, and we want it to be able to return. Over the past few days, we have seen the scenes at some tourist spots in Scotland, or individuals gathering in large groups or going to places that are clearly outwith the 5-mile travel

recommendation in the guidance. Those people are jeopardising not only their own and their family's health, and that of the people who live in the affected communities, but the potential for our tourism industry to come back when it is ready to do so. I know that that sounds quite harsh.

The whole-system approach that we have put together is underpinned by transport, childcare, education, and people's movements. Indeed, you will know that one of our first decisions was on children's hearings, because we know that vulnerable children need support.

10:45

It is not just about how individual business premises and workplaces can be made safe; it is about the implications for travel of those businesses opening up and the effects on the transport system. In the guidance that he produced last week, Michael Matheson, the transport secretary, made it clear that, for the transport system to operate safely and for the safety of transport workers, there will have to be a limited amount of movement. That is why home working is still the cornerstone of activity. It is important that people who can stay at home to work do so, and that they are supported by their employers. That will not be easy, and it will rely on employers thinking through the personal, individual circumstances of their staff. For example, they will need to support them when they are self-isolating. In relation to when the schools reopen, childcare will also be an issue, because staff who have children will have caring responsibilities. There are also those who are shielding.

I have given a long answer, but it is a critical point. The economy needs phase 1 to work, and I appeal to everybody, including MSPs, to support that message.

Gordon MacDonald: Last week, the committee heard from James Smith of the Resolution Foundation, who said that, after lockdown is lifted, the public

"will not go to restaurants or do other things that involve social consumption in exactly the same way."

He went on to say that

"The big risk is that support in key sectors is withdrawn too soon, or that we ask too much of firms in contributing to people's wages, which could lead to a big shake-out in those sectors and a lot of people becoming unemployed."—*[Official Report, Economy, Energy and Fair Work Committee, 29 May 2020; c 29, 30.]*

What is your view on whether the UK Government's job retention scheme should be extended beyond October?

Fiona Hyslop: There is a strong case for an extension. With regard to support, I do not want to undervalue the job retention scheme. I think that it is valuable and that flexibility is a good thing for the companies that are able to restart. The gradual and tapered way in which that has been presented is helpful, but not for every business or sector.

I have talked about businesses doing reconfigurations in order to reopen, such as the pubs and restaurants that are in the early stages of looking at working outside. I hope that the weather is good to them, but that will be a challenge, because it has not been possible so far and because of our climate. It is not just about businesses being able to provide a service in a way that allows physical distancing; it is also about how they do that in a way that keeps the business going. Some businesses say that, unless they have 70 per cent of their previous turnover or occupancy, they will not be able to manage and will have to make people redundant.

As other Governments have done, the UK Government has realised that it is cheaper to support the job retention scheme wage subsidy, however massive that may be. We heard the borrowing figures from the chief economist earlier, and although there are massive levels of borrowing to sustain the subsidy, mass unemployment would be more expensive in the longer term.

For understandable public health reasons, our position in the cycle of the pandemic is different from the position in the rest of the UK; we have to accept that. However, whether it is because of the timing of Scotland's phasing or because of the nature of some key sectors, there might have to be support beyond October. I have written to the chancellor about the tourism and hospitality area, and I have mentioned that the energy transition area will also require additional support, in order for the supply chain to continue. I could criticise and say that it is wrong not to announce that extension now, but, to be fair to the chancellor, originally, the job retention scheme was to finish in a few weeks' time and it has been extended, and it was not going to be flexible but it has been made more flexible for businesses that are looking to restart. The problem will be for businesses for which the timeframe will be longer.

We, along with others, managed to persuade the Chancellor of the Exchequer to extend and change the job retention scheme. I will be persistent in doing the same on a sectoral basis; cross-party support from the Scottish Parliament would help us in that regard.

Andy Wightman (Lothian) (Green): Further to earlier questions about borrowing, I note that the UK Government is selling gilts to the Bank of England to the tune of approximately £200 billion,

which is being financed by literally printing money. It is clear that the power of having a central bank in a crisis is incredibly important.

Last week, in your statement in the chamber, you said:

"We will need a revolution in economic thinking".—
[*Official Report*, 26 May 2020; c 32.]

Are you able to say more about what that revolution might look like?

Fiona Hyslop: The good thing about revolutions is that they are developed not by one individual but collectively. That is what Scotland has to face up to now. Are we prepared to ask whether the old-fashioned traditional methods—measuring gross domestic product and global consumption—are what are needed, as we go forward? People know that life will never be the same again—not only personally but in terms of how economies work, so we will have to change how we finance and value things not just domestically but internationally.

To go back to Rhoda Grant's point, I point out that community thinking and analysis will be part of the response stage, which means that we need to be serious about having a wellbeing economy. A few countries and Governments in the world are embracing and taking forward the wellbeing economy approach, which has thus far always been in the shadows. It seems to be peripheral, and one always has to explain it, but it is a revolution in thinking and we should embrace it. However, there are different models and different ways of working out there.

With regard to perspective, I have a degree in economic history, so I always take the long view. In the past, economies have always adapted and changed when there has been a shock to the system. There is currently a question about how the free-market economy can work properly; there will have to be a mixed-market approach.

On how we support each other, co-dependency is important. We, as a society, cannot survive without the support of care services, and we rely on childcare. We need to think about our education systems, for example, and how we value them.

We also have to generate income and we need to ask what income and value look like. We need that kind of thinking, and if we can get some kind of consensus in Scotland, we can work with other countries that are interested and we can try to do more using that approach, as we move forward.

Andy Wightman is interested in particular in changes that relate to energy and climate change. Such changes are worthy not just in and of themselves but because they are catalysts for thinking about how people can work, and how we

can change our values system. I am sure that that type of thinking will come to the fore in the debate on recovery, but we have to move swiftly on from making decisions to showing how things can work in practice. That is the challenge for us all.

Andy Wightman: Thank you, cabinet secretary. I look forward to hearing more about that and to discussing it further.

You talked about interdependency and global challenges. In order to advance such a revolution, we will need unprecedented economic co-operation between the Scottish Government and the UK Government. The challenges of the fiscal framework have been mentioned in passing today. Beyond the framework itself, what discussions are taking place between the Scottish and UK Governments about the medium-term economic outlook and the kind of measures that are required to build a resilient economy?

Fiona Hyslop: Co-operation and interdependency are very important. For example, we see the Nordic states working together, and local economies are working together in other parts of the world. However, there needs also to be a global response, but I am not aware that global institutions have so far responded by articulating any kind of vision for change. That is the challenge for politicians and leaders in helping to shape the debate.

On working with the UK Government, there is co-operation and activity, although it can be frustrating—there is currently an issue about £60 million of consequentials for business support in addition to the original allocation, which has not been provided, so we are having to pursue it. We hope that such issues can be resolved, because much of this has to be done on trust: we have to trust that people will follow through when they say that funding is available.

Rhoda Grant made a point about employability and skills. I cannot imagine that the UK will not make a major intervention in that area, which will bring consequentials. However, it is very difficult for us to plan without knowing how much those consequentials might be. It is important to have some trust and confidentiality. I have never announced a UK Government initiative when I have known about it early, because it is for the UK Government to lead on such things and to make its own announcements. However, we need to know what is happening so that we can plan for our fiscal responsibilities. Employability and skills is an example of an area in which we would be able to plan much better if we knew whether there were consequentials. If we had to take money from another part of the devolved economy, which could not afford it, and we then found out that there might be consequentials, that would waste time and productivity.

A lot of work is done between Kate Forbes and the Chief Secretary to the Treasury, in particular, and I have regular conversations with the minister at BEIS. So far, our Scottish Government officials have been working with UK officials to prepare the plans for recovery that will come to ministers. I have asked specifically that papers be presented to us at the weekly calls so that we can work with UK officials to identify what we can do to supplement UK state activities and what we can do in devolved areas. There is a lot of co-operation.

Media news coverage means that we always hear about disagreements—bad news and disagreements make for better headlines than co-operation does. Part of my job is about seeing what we can tease out of the challenging circumstances. Everyone in both Governments is working at pace to identify how we can make the best of the situation that we currently find ourselves in, and to draw up plans that reflect specific themes in Scotland's economy while tying them to what the UK Government is doing.

It is just as important that we try to influence the UK Government in its thinking. I have been told by UK ministers that my contributions and suggestions have influenced some of their decisions, particularly in relation to thinking around changes to the loan scheme. At the start, the approach was very blunt, but the banks are now delivering much more in loans through the 100 per cent guarantee and the bounce back loan scheme than they were through the original scheme, and they are extending loans to larger companies. There are also issues around aspects of sectoral guidance. It is important that we share thinking and ideas.

On recovery, I would like sharing of information and suggestions at ministerial level to be a bit more advanced. I have another meeting tomorrow—the regular quadrilateral call with Wales, Northern Ireland and the UK Government. I hope that we are now shifting into recovery planning and sharing what the UK Government is planning to do, which will allow us to tailor what we do, accordingly.

Andy Wightman: That was useful. I suppose that I was looking more for insights on the fundamental political differences between the Scottish and UK Governments, and how in the medium-to-long term they can work together in new ways. However, I will leave it there.

I have a final question, but time is short, so perhaps you could respond either in writing or say that you will respond through a statement, or whatever. The test and protect strategy will require support for people who are isolating. I am aware that there has been good co-operation between employers, the Scottish Trades Union Congress

and Government in the work to date. However, the strategy will pose particular challenges because people will be asked to isolate when they have no symptoms and are, therefore, arguably not particularly—[*Temporary loss of sound*]. I seek confirmation that you are across that and will come forward with clear proposals, given that we are in the test and protect phase now.

11:00

Fiona Hyslop: That was an issue even before we went into lockdown. Andy Wightman will remember that, at that stage, people had to isolate themselves if they had symptoms. Obviously that has been extended, and test and protect will also make that a fundamental part of how we respond in order to suppress the virus. There will also be other health issues.

Even before lockdown, I was preparing a statement, to which the Scottish Trades Union Congress agreed; we want businesses to agree to it, as well. It makes sense to support people who are either shielding or having to isolate.

I have also continuously raised support for payment of statutory sick pay with the UK Government, in terms of its responsibility for small and medium-sized enterprises, which self-isolating people have welcomed. It is critical that that continues, particularly for smaller companies. It will work if people take on the point about self-isolating.

On Mr Wightman's point about political differences, who would have thought that the UK Government would have been borrowing at the level that it has for its activity? Who would have thought that it would have been responsible for one of the major wage-subsidy projects in the world? I suspect that it has had to fundamentally rethink how it operates. Its position has shifted by a considerable amount, as we can see if we examine what it was then and what it is now. I do not know whether it will stay in its current position with regard to recovery. That is obviously something for the future.

The Convener: Recovery will obviously be key to the economy, and whether businesses can get back to work and reignite their turnovers and profitability. The cost of meeting HSE guidelines for reopening will potentially hit that recovery—in particular, when materials need to be purchased and social distancing needs to be put in place. Has the cabinet secretary done any work on the potential impact to businesses, and whether we will require a completely different kind of support to enable businesses to reopen under the guidelines?

Fiona Hyslop: There are many challenges in that respect. We know that, in relation to

restarting, the capital outlay for reconfiguration will be a challenge for some, but not all, companies. That issue is leading us to review what we are doing with the current grant scheme, and to consider whether any headroom within the scheme could be repurposed and allocated again as business support.

I also suggested to the UK Government a month ago that we consider potential new funding schemes for restart in order to help with practical reconfiguration, including purchases of Perspex and so on. There is obviously a challenge for everybody, but a lot of companies are just getting on and doing it. In the current phase, for example, companies that should be able to function fully in phase 2 can plan now to prep their premises and make them ready for a safe return. Obviously, in manufacturing, much of the reconfiguration requires Perspex.

Michelle Ballantyne made a good point about the need for companies to be profitable. Gordon MacDonald has made the point that physical distancing can be a challenge in terms of the rate of return.

With regard to advice and compliance, it is not just about safe workplaces, but about how the workplace can be profitably reconfigured. We are working with business leaders and entrepreneurs, who have insight into how reconfiguration might be done productively. We are also learning from other countries: many companies in Scotland have global operations that have been able to provide us with insight on how that might be done. Again, it is about information sharing.

Compliance with HSE advice is not always about enforcement; it is also about helping businesses to work out how to comply, so the advice stream will become increasingly important. I cannot tell you what the quantum of funding might be for restart, but if we are doing that, we will have to ensure that people make other changes to their businesses.

It is also about restructuring in a way that repurposes businesses and makes them more energy efficient, for example. The restart phase that we are moving into will create challenges in those and many other areas, but we are trying to mobilise the talents of Scotland in order to help high street and national businesses to respond in that way. We have not been able to calculate the cost of that on a national scale, but we will work with sectors as they work through that, because the businesses themselves will know what the process will require.

There has been much closer work with businesses, business organisations and trade unions than ever before. The strength of that partnership is shown in rapid delivery of guidance

and rapid responses with intelligence about how we can help businesses on the ground.

The Convener: Some sectors—tourism, for example—will have a very slow restart. It is not only businesses that consider themselves to be tourism businesses that are massively affected. This week, a large laundry business in the Highlands that was doing the laundry of many tourism businesses across the area closed its doors.

In thinking about how you support businesses, how are you thinking about the supply chain? If a business's supply chain is in a category that you are supporting, will you make that business eligible for the funding? If supply chains collapse, reopening will be problematic.

Fiona Hyslop: That is a critical question about a critical area. We realised from the start that supply chains could affect whether essential services would be able to function during lockdown. We needed to help the public to understand that we could not keep essential services working if the supply chain that supported those services was not operating.

The pivotal enterprise resilience fund is for companies that are vital to our economy, which were viable before Covid, but have become vulnerable because of Covid. For us, companies in the supply chains are part of that because they are key to restarting. I talked earlier about energy supply chains. We will not be able to restart if we do not keep productive capacity in supply chains. If companies that have sustained demand and activity cannot function fully, we will not have an integrated economic response.

It might be an area that people are not interested in and do not get excited about: people might be more interested in big companies. However, Scotland's economy, as you are well aware, is an SME economy in which we have important supply chains.

Pressures will come. Some major companies in aerospace and aviation, for example—not just in Scotland but globally—are reconsidering their activities, and we have to make the best case for Scotland. Advanced manufacturing is important to us; it is a growth area. We have announced the construction of a National Manufacturing Institute Scotland facility; Morrison Construction will do that important piece of construction, which will create more activity in the economy. That will be important because we need the appropriate skills base in order to compete, and it is important that we compete well in advanced manufacturing.

Supply chains are critical in advanced manufacturing. Ivan McKee and his team have been looking at repurposing aspects of the private sector to meet national health service procurement

needs. That innovation can and should be used for the products that we will need for the future. We can combine that with Rhoda Grant's point about young people and youth employment, and we can marry it with apprenticeships.

It will be difficult: I do not underestimate the economic impact that all this will have on people and on their livelihoods and businesses, but we must have some hope about growth. If we look after our supply chains, and look after our manufacturing in key areas including technology and the digital economy, we will come through this and be in a much better position than we were in before.

The Convener: Do I take it from that that businesses can apply for sectoral support in the sectors that they supply?

Fiona Hyslop: That will be increasingly important, as will understanding the supply chains, which are quite complex. That is what our enterprise agencies and my Scottish Government officials have been doing.

The Convener: There are no more requests for questions; we have reached the end, cabinet secretary. We have had a long meeting and have had some good conversations, and I am sure there will be more in the future. I thank you and your officials for coming. We heard from Gary Gillespie, but we also thank Kevin Quinlan, from whom we did not hear. Is there anything that you would like to add before we close?

Kevin Quinlan (Scottish Government): I am sure that the committee has covered the ground.

Fiona Hyslop: Maybe next time, we will hear from Kevin.

I thank the committee. Our relationship will be important because scrutiny, accountability and challenge are parts of the democratic process. Your insight and what you can bring from your constituencies and from your party contacts and networks will be important. We are facing something that we have never had to face on this scale—certainly, not since devolution. I will need you, and all the talent that we have in Scotland, to get us through this and to steer our path.

The Convener: If we can take an open, honest and transparent approach as we look at the issues and scrutinise what we have in front of us, that will enable us to ensure that the information that we give in our reports is accurate and useful. I thank you again for attending.

That brings us to the end of the public part of our meeting. I thank people for watching and members and witnesses for attending. I hope to see you all again next week.

11:11

Meeting continued in private until 12:16.

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