



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy and Fair Work Committee

Wednesday 19 January 2022

Session 6



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ECONOMY AND FAIR WORK COMMITTEE

2nd Meeting 2022, Session 6

CONVENER

*Claire Baker (Mid Scotland and Fife) (Lab)

DEPUTY CONVENER

Colin Beattie (Midlothian North and Musselburgh) (SNP)

COMMITTEE MEMBERS

- *Alexander Burnett (Aberdeenshire West) (Con)
- *Maggie Chapman (North East Scotland) (Green)
- *Jamie Halcro Johnston (Highlands and Islands) (Con)
- *Fiona Hyslop (Linlithgow) (SNP)
- *Gordon MacDonald (Edinburgh Pentlands) (SNP)
- *Colin Smyth (South Scotland) (Lab)
- *Michelle Thomson (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

- Kate Forbes (Cabinet Secretary for Finance and the Economy)
- Helena Gray (Scottish Government)
- John Mason (Glasgow Shettleston) (SNP) (Committee Substitute)
- Ivan McKee (Minister for Business, Trade, Tourism and Enterprise)
- Hilary Pearce (Scottish Government)
- Richard Rollison (Scottish Government)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

Virtual Meeting

Scottish Parliament

Economy and Fair Work Committee

Wednesday 19 January 2022

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Claire Baker): Good morning, and welcome to the second meeting in 2022 of the Economy and Fair Work Committee. Colin Beattie has given his apologies; we are joined by John Mason, who is here as his substitute. Do you have any relevant interests that you wish to declare in relation to this meeting, John?

John Mason (Glasgow Shettleston) (SNP): I have no relevant interests to declare.

The Convener: Thank you, and welcome to the meeting.

The first item of business is to decide whether to take agenda items 4, 5 and 6 in private. Are members content to do so?

As no member has indicated otherwise, the committee agrees to take agenda items 4, 5 and 6 in private.

Budget Scrutiny 2022-23

09:31

The Convener: The next item of business is an evidence session on the Scottish Government's 2022-23 budget. The budget was published on 9 December 2021 together with a resource spending review framework and the medium-term financial strategy. The stage 1 debate on the budget is expected to take place next week.

In today's evidence session, we will concentrate on the areas of the budget within this committee's remit. I welcome the Cabinet Secretary for Finance and the Economy, Kate Forbes MSP, who is joined by Scottish Government officials. Helena Gray is interim director of fair work, employability and skills; Richard Rollison is director for international trade and investment; and Kathleen Swift is head of the economic directorate finance unit.

As always, I ask members and witnesses to keep their questions and answers as concise as possible. I invite the cabinet secretary to make a short opening statement.

Kate Forbes (Cabinet Secretary for Finance and the Economy): Thank you very much, convener. I thank the committee for inviting me to the meeting.

In general terms, the finance and economy portfolio budget for next year provides £1.75 billion in total to strengthen Scotland's economic recovery, with a firm commitment to build a net zero wellbeing economy and to protect and create good-quality jobs across Scotland. Obviously, overall Scottish Government funding for next year is significantly less than that for the current year, with Covid funding having been removed at a time when we undeniably need to invest in the economy and help public services to recover. I think that committee members will want to touch on the on-going Covid impact without our necessarily having the Covid funding to cover that. We also have on-going challenges that are presented by the European Union exit, particularly for our labour market. That means that some really tough choices have been made in the budget, because it cannot deliver the resources that all our partners need in full.

The budget will invest £635 million across our enterprise agencies, the Scottish National Investment Bank and VisitScotland to support economic recovery and transformation. We are providing £124.6 million in total for employability support for those who are most impacted by Covid and we are contributing to our national mission to eradicate child poverty. We hope that that will help

businesses to tackle the skills shortages that they are experiencing particularly acutely now.

To accelerate the potential contribution that digital technology can make to the Scottish economy, we have allocated £192 million to improve connectivity and boost the digital economy. That is an increase of £48 million from this financial year, and it includes targeted support for small and medium-sized businesses.

Those are just some of the headlines. The budget is progressive, but it is also transitional, as we are working towards finalising the 10-year national strategy for economic transformation, while we do all that we can to mitigate the immediate impact of Covid uncertainty on the economy.

Alongside the budget, we have published a consultation on the resource spending review. We will publish a full resource spending review in May 2022. I look forward to engaging with the committee on the review in a way that suits it. It will be the first time in a number of years that we are able to embark on multiyear budgeting. I know that multiyear budgeting has long been a request of this committee and others to provide certainty for our public bodies, businesses and taxpayers.

The Convener: Thank you, Ms Forbes.

You mentioned in your opening statement the 10-year economy strategy, which you are working to finalise. You have outlined the challenges for our economy, and we know that Scotland is lagging behind the United Kingdom overall in respect of economic growth. This morning, we have seen increased inflation figures and the pressures that they are putting on the economy. Why has the 10-year strategy been delayed? When can we expect to see it? What are the challenges in responding in quite a fluid situation? I appreciate how challenging it is to set out a long-term plan at this stage, when the ground is constantly shifting.

Kate Forbes: The way that you phrased that question is particularly helpful. You have instantly grasped some of the challenges that we face. We have worked on a strategy for six months, and I am quite pleased with what it intends to achieve. Its objectives and evidence base are clear, and it has been heavily informed by quite a remarkable council of advisers and extensive consultation.

That said, there are, obviously, acute risks in publishing a strategy at a time when businesses are quite rightly saying that they face challenges now, tomorrow and next week, without the Government investing significant time and attention in looking at what we should be doing in 10 years' time. That is one of the tensions. We have that tension with some of the other strategies that were due to be published before Christmas,

including the retail strategy, because that is all focused on recovery.

There is a particular tension in publishing a strategy that is 10 years long. Obviously, it must take into account not only the immediate impacts of Covid, which we are well versed in, but two other elements: the long-term structural challenges that there were pre-Covid and which there will be after Covid—perhaps in an exacerbated form if we do not grapple with them—and trying to identify where Scotland can grow over the next 10 years. This week alone, we have seen a pretty substantial and significant announcement on ScotWind. There are phenomenal opportunities for our supply chain, but I am of the view that economic success is never inevitable; it comes as a result of clear targets, clear approaches and working collaboratively with business.

I hope to be able to publish the strategy very soon. I certainly hope to publish it as soon as we have emerged from the protections—the First Minister announced the removal of many of those yesterday—and we are all, including the committee and the business community, in a space in which we can continue with that. I see that as happening in a matter of weeks, not months.

The Convener: Okay. That is helpful. The committee had hoped to see that before Christmas, but I appreciate the reasons for the delay that you have outlined. We hope to see the strategy as soon as possible.

I want to move on to the tourism budget, which comes under the committee's remit and is within your responsibilities. As you will know, the committee recommended that the Scottish Government should look to meet the ambition that is set out in the Scottish tourism emergency response group proposals for phase 2 of the tourism recovery programme. In the foreword to the tourism recovery programme document, which is entitled "Scottish Tourism: Two-year Recovery Recommendations", the Minister for Business, Trade, Tourism and Enterprise, Ivan McKee, says:

"The Phase 2 recovery proposals have the potential to deliver greater, greener and fairer prosperity for Scotland".

There is therefore an endorsement from the Government in that document, but there has been no progress on funding. No additional resource has been put in at all at this stage for the phase 2 delivery of the recovery fund.

You have given an explanation of the consequentials—that is where the £25 million originally came from—and you have recognised the importance of employability and some other areas in which you have put in resource. Why has that area not received any additional funding?

Kate Forbes: You are right to say that the initial £25 million during this financial year was from Covid consequentials. That goes to the heart of comments that I made in my opening remarks about the difficult choices in the budget. There are some difficult choices on where to prioritise funding, which I am not shying away from. Areas across the board were previously funded by Covid consequentials, and we have had to determine whether they can be absorbed in our budget.

I have engaged with representatives of STERG, and we have not withdrawn our support for the recommendations in the STERG report. We have previously accepted the recommendations. I would very much like us to be able to progress those recommendations, and I am working with VisitScotland and others to see how we might do that. The door is not closed on trying to progress them with financial support, but we have not identified a specific ring-fenced pot of money in the budget to progress them.

I have been in conversation with the tourism industry quite intensively over the past month or so. There is an opportunity, particularly once all the protections are removed and tourism can function fully and trade normally. There is a real appetite to then focus back on recovery. I would like to see whether there is more that we can do on the finances to ensure that we can progress some of the early points.

The tourism industry is citing the real need to invest with confidence. That comes from marketing internationally as well as locally. We have perhaps been holding off on our commitment to invest in a big marketing campaign because of the uncertainties of the time that we are living in, particularly when it comes to international visitors. There is still a commitment to do that when the time is right, and the door is certainly not closed on identifying additional support, but that will probably need to be in-year rather than in the budget.

The Convener: You mentioned marketing. I see that there has been a real-terms reduction in VisitScotland's resource budget in the coming year. That is of concern, as it is the main marketing body. I know that a number of members want to come in on that issue.

Fiona Hyslop (Linlithgow) (SNP): Good morning, cabinet secretary. I, too, want to focus on tourism. I will begin by following up on what you said about STERG's recommendations. Have you calculated how much its funding ask comes to?

Bearing in mind that we are talking about the budget for 2022-23, any spend on phase 2 of the tourism recovery plan to attract visitors and build confidence would be for next summer as well as this summer. If there is a clear indication that

visitors need to have confidence in the sector, not including that expenditure in the budget will have an impact. How much do you think phase 2 would cost? If you are saying that you are committed to funding it and that, although you cannot put it in the budget at this stage, you want to do so during 2022-23, do you know much that would cost?

Kate Forbes: It is challenging to put a specific figure on the overall cost of phase 2 now. There is a moveable feast when it comes to what we could do on each recommendation. My officials might be able to flesh that out. One of the recommendations is about investing in a marketing campaign. I would like that to be as impactful as possible, but we do not have a specific figure. Generally, we are talking about £25 million of resource and £24 million of capital—those are the figures that we are using at the moment, but I caveat that by saying that we will identify funding for the recommendations as they require to be implemented in the light of particular pressures.

Another example that I can give relates to the skills agenda, which Fiona Hyslop will know well. There is probably an unlimited requirement for investment in reskilling and upskilling in tourism. Although there will be funding identified for that, it needs to reflect the situation at the time.

09:45

On the issue of confidence, I take the point that, if funding for a specific requirement does not appear in the budget, that raises questions. That is why it is important that there continues to be engagement with STERG so that it is conscious of our commitment to continue to progress our commitments and knows that we are willing to work with it as and when its recommendations are required as part of the recovery. That process starts right now. In fact, it started over the Christmas period, even though the tourism industry has been focused on the immediate challenges.

There is still financial support available in the budget for tourism more generally. It is not a case of our not investing in tourism. We are talking specifically about the STERG proposals.

I will stop there. I think that there was a second part to your question, which I am afraid I cannot recall.

Fiona Hyslop: It is okay, as I would like to move on. If you are thinking about figures of £25 million for resource and £24 million for capital for phase 2, that is almost equivalent to the whole of the tourism budget. It is not an insubstantial amount to be missing from the budget, although I think that people will take comfort from the comments that you made, especially those on the tourism sector.

If we look at the budget before us, we can see that the resource budget for VisitScotland is flatlined. The capital expenditure has reduced, but we know that, by and large, VisitScotland's refurbishments have been completed. Can you give an assurance that the rural tourism infrastructure fund—in which, as you know, I have a keen interest—will not be reduced as a result of the capital reduction?

That leaves the "Tourism special projects" line as the line in the tourism budget that will experience a major reduction. That relates to recovery, as you have explained. Can you provide reassurance on the capital for impact for communities and reassure us that the rural tourism infrastructure fund will be protected? Can you also comment on the fact that phase 2 of the tourism recovery plan might double the tourism budget as it is currently set out in the budget if and when you can get the resources for it?

Kate Forbes: The rural tourism infrastructure fund is close to Fiona Hyslop's heart and it is extremely close to my heart, considering my constituency interests, which have significantly benefited from the fund, which she announced when she was a minister. It was a pioneering fund at the time, and it has unlocked huge amounts of economic potential in some of the more remote and rural areas. It was a very forward-looking initiative, for which I thank her. I am absolutely still committed to RTIF.

On VisitScotland's overall budget, its core budget has returned to pre-Covid levels. In doing comparisons for all the public bodies, I would encourage the committee to look at the pre-Covid position, where we stripped out Covid consequentials. There was a significant amount of Covid consequentials in the VisitScotland budget. I do not for a minute argue that there is not an on-going Covid impact, but I do not have Covid consequentials in any part of my budget, because there are no Covid consequentials from the UK Government sitting separately. That is the position for VisitScotland. We have done all that we can to protect the budgets of the key enterprise bodies, including VisitScotland's.

Jamie Halcro Johnston (Highlands and Islands) (Con): I have one specific question and a couple of slightly more general questions, so I will try to get through them quickly.

As has been mentioned, VisitScotland's budget has been cut, and the Convention of Scottish Local Authorities has highlighted the pressure on local authority budgets. Given the importance of tourism to the region that I represent and which your constituency is in, what concerns do you have about the impact of those cuts across the Highlands and Islands?

Kate Forbes: I would argue that they are not cuts. I would argue strongly that we have protected the enterprise agencies in particular. For example, we have protected the budget of Highlands and Islands Enterprise. Its spending power has been maintained. I know that there was dispute in the press about HIE's budget falling, but that relates to its non-cash allocation. That is about budgetary cover for a depreciation of assets and accounting standards, so it is not about spending power. That was based on what HIE identified that it needed to cover the non-cash basis.

HIE's budget has been protected. I have already talked about VisitScotland's budget being protected. You also mentioned local authorities. There is a debate taking place this afternoon that will allow us all to air the issues in that regard, but we have protected the local government budget.

However, I concede the point that protecting spending in flat cash terms does not take into account the significant challenges around inflation. This morning, we had the announcement that, last month, the consumer prices index rose to 5.4 per cent. That is significant and substantial. I cannot inflation proof any part of the budget, because my budget is not inflation proof and these are challenging times.

I will not go into details now but, on top of that, I could cite the city growth deals for Moray, Inverness, the Highlands and the islands, all of which are contributing to economic development in one of the best bits of Scotland.

Jamie Halcro Johnston: I certainly agree with you on that, although I might dispute some of your other comments. Convener, do you want to me continue?

The Convener: Yes, please, if you want to. Your connection is a bit poor, but I think we can hear you well enough.

Jamie Halcro Johnston: I have another couple of questions, convener. I do not know whether you want me to keep them until the end or to ask them now.

The Convener: That is fine—go ahead. Keep it brief, but go ahead.

Jamie Halcro Johnston: I will do—thank you.

I seek clarification from the cabinet secretary on a couple of points. On "Representing Border", you suggested that you had allocated every penny of the budget and that, because it was a fixed budget, you could not create more money overnight, but then around £100 million-worth of funding for business support was found from what you called "existing budgets". Which budget lines did that £100 million come out of?

Kate Forbes: I remind members—Jamie Halcro Johnston will know this—that that question relates to this year’s budget rather than next year’s budget, which is what the committee is taking evidence on now.

I think that the First Minister has been quite open about the fact that that budget was largely identified from an overall figure of £375 million. The Scottish Government identified £200 million that could be taken largely from health consequentials, understanding that there is a health implication of us keeping Covid transmission low and that, to do that, we need to compensate businesses for being closed. There is a health element to that.

In our management of budgets, particularly in the run-up to year end, we try to ensure that every part of the Scottish Government’s budget comes in on balance—on budget—so an intensive piece of work is being done right now to manage every budget line. Within that, we have identified funding across the board—I cannot go through a list with you at the moment, beyond citing the health consequentials—that we are using to manage that £100 million impact. It will not impact specific lines that I can reference now beyond health, because that is just the nature of our budget management.

Jamie Halcro Johnston: So it should not impact on next year’s budget. I understand that I have been put on audio only, which is probably a blessed relief to the public and everybody present.

The Barnett consequentials funding that has come in to help to allay national insurance costs has not been passed on to local authorities, as it has been south of the border. Can you confirm that that is the case? What are the reasons behind that?

Kate Forbes: It is really important to understand that, within the budget that we receive, we do not get, for example, a ring-fenced fund for national insurance contributions from the UK Government. We get our overall budget, which has been well scrutinised. The Scottish Fiscal Commission has talked about it being 5.2 per cent down, in real terms, on this year’s budget. We get an overall pot and we allocate the funding within that pot. We have done that—we have identified funding for local authorities and for other parts of the public sector. There has not been specific ring-fenced funding for any part of the public sector.

People cite to me that the national health service is getting additional money for national insurance contributions in Scotland, but that is not true. I provide the health budget. When it comes to responsibility for how that funding is divvied up, it is entirely up to the relevant cabinet secretary, the chief executive and so on to identify how they do that. They have identified funding within that

overall pot for national insurance contributions. Any other part of the public sector could do that. Some of the public bodies that we have discussed, such as HIE and VisitScotland, face the same challenge. They, too, will need to manage national insurance contributions, which is essentially an inflationary impact.

Jamie Halcro Johnston: To clarify, you are suggesting that the funding for that has been passed on, but it has been passed on in general budget terms rather than through specific ring-fenced funding.

Kate Forbes: I am suggesting that I cannot tell you how much money has or has not been given for national insurance contributions within the overall budget that we receive from the UK Government, as that does not have a specific line that identifies national insurance contributions. I can only tell you what the overall pot is. I cannot tell you where there has been movement. This is a technical tangent, but that is because this is a spending review year. In normal years, we would get all the identified lines showing where there were rises and falls in budgets. This year, because it is a spending review budget, we just get the overall pot; things are not divvied up.

As part of that, I have sought to protect the local government budget in cash terms—the core budget. Obviously, that is significantly supplemented by funding for social care and education, to name just two areas of pressure that local government has cited.

Colin Smyth (South Scotland) (Lab): Good morning, cabinet secretary. I return to the issue of support for enterprise agencies. You said that you are protecting funding for the enterprise agencies, but real-terms cuts are not really protecting. The revenue budget for Scottish Enterprise is pretty much flatlining in real terms compared to last year and, as you admit, as inflation rises that becomes a cut. The Highlands and Islands Enterprise overall budget is being reduced in real terms, and that includes day-to-day revenue spending, not just capital spending. The budget for Skills Development Scotland has been cut by £5 million in real terms alone, and we do not see any stimulus for our struggling high streets.

Given the scale of the economic challenges that we face, surely this would have been a year not just to tread water when it comes to economic support but to boost the budgets for our enterprise agencies and SDS.

Kate Forbes: It sounds as if Colin Smyth and I are on the same page. It is entirely because of the huge economic challenges that we face that the total allocation across the three enterprise agencies—Scottish Enterprise, Highlands and Islands Enterprise and South of Scotland

Enterprise—is the highest that it has been since 2010. In the overall budget this year, we have not just protected the enterprise agencies' budgets, but ensured that there is funding to help them to respond to the economic challenges that we face.

I have discussed the budget allocation with each agency's chair and chief executive, and they are planning their business activity right now. We are also fully funding the financial transactions requirements for the Scottish National Investment Bank. You cannot get away from the fact that not only have the enterprise agencies been protected, but there is funding in place to help them respond.

You talked about cuts to HIE and South of Scotland Enterprise. There are two changes to their budgets. One is removing the ring-fenced Covid funding, which I have explained already, and the second is the non-cash element that seems to be dominating discussions. Non-cash funding is not spending power. It is just to cover depreciation and accounting standards, and it is determined by what the enterprise agencies tell me they need. That is where there is fluctuation, particularly for HIE and South of Scotland Enterprise. Incidentally, Scottish Enterprise's non-cash allocation has gone up significantly, because of the need to cover some of those issues. It is not about spending power.

Colin Smyth: I am unclear how in effect freezing the revenue budget when inflation is over 5 per cent is somehow protecting the budgets of the enterprise agencies. The Scottish Fiscal Commission recently warned that the Scottish economy is lagging behind that of the rest of the UK. Compared to pre-pandemic levels, gross domestic product and employment earnings are all recovering more slowly than in the rest of the UK. The Confederation of British Industry Scotland has said that Scotland is lagging behind other parts of the UK on nine of the 13 productivity indicators. Surely we should not have a real-terms revenue reduction now for the enterprise agencies. Why are we not increasing the budget in real terms in the year ahead? Does the budget not impact at all on the fact that the Scottish economy is lagging behind the rest of the UK on the key indicators, as your Fiscal Commission highlights?

10:00

Kate Forbes: I will give the figures again. The investment of £370.5 million for next year is an increase of almost 7 per cent for the enterprise agencies from this year. What I find startling about this conversation is that, in a budget with lots of difficult choices, the enterprise agencies have been protected. I understand the focused scrutiny on the enterprise agencies, but we have already talked about some of the difficult choices that we have had to make. Those difficult choices are

largely as a result of where I have prioritised funding. I have prioritised funding for the enterprise agencies and for the Scottish National Investment Bank to deal with and tackle some of the economic challenges. I understand the scrutiny, but the enterprise agencies have received what they need.

My bottom line is that, if the member thinks that the enterprise agencies should receive more than has been allocated, he should tell me where in the portfolio to take it from. There are other areas that are probably facing greater challenges than the enterprise agencies' budgets are.

Colin Smyth: Why is Scotland's economy, on all the key indicators that the Fiscal Commission has flagged up, lagging behind the rest of the UK, if it is not to do with funding for the enterprise agencies?

Kate Forbes: I can go into that in great detail, but anybody who suggests that the structural challenges in the Scottish economy are entirely the result of budget decisions on the enterprise agencies is missing the point in the SFC's evidence and the evidence from many other commentators.

There are a number of challenges. Productivity is an obvious example. Although productivity has increased in Scotland over the past decade and a bit, it still lags behind. We need more significant investment in businesses from the private and public sectors. We need to tackle the skills challenges and try to reduce economic inactivity. There is a whole host of issues on productivity and growth. There is also our dependency on particular sectors in the economy. When those take a hit, as happened with the oil and gas sector in the Covid period, there is a disproportionate impact on the Scottish economy compared with the impact in other parts of the UK.

We could probably spend an entire evidence session on the structural challenges and also the opportunities, but suggesting that the entirety of the structural challenges is purely linked with enterprise agencies' budgets is probably short-sighted.

Gordon MacDonald (Edinburgh Pentlands) (SNP): I will continue the conversation on enterprise agencies. You have said that their budget is the highest in recent years and that it has increased by 7 per cent. What other revenue streams, such as investment income, are available to the enterprise agencies? How is the £370 million that is the baseline investment in the enterprise agencies being used to support our economic recovery, especially as we come out of the pandemic?

Kate Forbes: That is a good point. Gordon MacDonald will know that the enterprise agencies

have their own revenue streams, although that is perhaps less the case with South of Scotland Enterprise, as it is fairly new. The agencies have portfolios that they manage and that supplement their budget positions. We are discussing what is allocated by the Scottish Government. The agencies are constantly on a journey of trying to improve the way in which they operate, support businesses, create greater business and community resilience, protect and create jobs and deliver a fair and green economy.

When the economic strategy is published—it will be soon—I want it to galvanise the enterprise agencies and provide clarity on what they should be doing. I am of the view that we cannot do everything as an economy. We need to identify our strengths, back those strengths and ensure that we have competitive international advantages rather than try to do everything moderately well.

You will have seen that the enterprise agencies have developed their own performance management frameworks. They are working together to make sure that they are better aligned. In their annual business plans, which are approved by Scottish Government ministers, set out their commitments to meeting agreed targets and milestones. Every penny that is spent on enterprise agencies has to deliver benefit to the Scottish economy. I want the enterprise agencies to perform as well as possible and to be clear in their ambitions and approach.

I do not know whether the member would like me to bring in Richard Rollison to speak about some of the other things that the agencies are doing, but otherwise I have probably covered it.

Gordon MacDonald: It would be helpful if he would expand on the economic recovery from the pandemic.

Richard Rollison (Scottish Government): As Ms Forbes said, we could spend a whole committee meeting discussing that. I will pick up on Ms Forbes's point on the revenue generation of Scottish Enterprise and to an extent the other enterprise agencies. As the committee will know, Scottish Enterprise has an investment portfolio that over the years delivers returns that are then invested back into the economy, economic growth, business support, meeting the net zero targets and all those things. All the enterprise agencies have a little bit of a property portfolio that delivers some revenue. The income adds to the grant funding that the Government provides to help them to support the economy. The detail of the income each year is set out in their annual accounts.

Gordon MacDonald: I believe that it was in the region of £56 million last year. Is that correct?

Richard Rollison: I am not sure of the precise figure, but it was pretty significant from some historical investments. We can come back to you on that.

Gordon MacDonald: Thank you.

Cabinet secretary, how do we measure the impact of the enterprise agencies' activities, in particular in the national performance framework?

Kate Forbes: That is a hugely important question. There are two parts to that question of measurement: what the agencies do now and what I would like them to do. What they do now is develop performance management frameworks, which are published with the annual business plans and approved by ministers. We monitor the delivery through the agencies' boards and through regular discussions with me and Ivan McKee. The agencies formally report on progress in the annual report and accounts. That is the sum of their internal and external reporting on performance.

After the economic strategy is published, I would like us to be crystal clear. I will not pre-announce the national strategy, but there are five aims and objectives in it, all of which relate to areas where the Scottish economy has big opportunities or needs to deal with some of the structural challenges. I have already referenced productivity. There is also a big opportunity in some of the new markets—there are new growth and economic opportunities, particularly in energy transition. There are also areas where we have skills challenges, and we need to ensure that we have a skilled population for the jobs that are available. We also have to deal with some of the structural inequalities.

That is a quick overview. The enterprise agencies and other public bodies that have an interest in Scottish economic growth should all be held responsible, as I will be held responsible, for delivering against those objectives. The national strategy will also include a real hard look at the delivery mechanisms. Basically, there will be a ruthless focus on delivering a step change against those five objectives. I have told you how the agencies publish and monitor progress at present.

Ultimately, to go back to what Colin Smyth said—I agree with him in part—the enterprise agencies need to deliver, as I need to deliver and as other public bodies need to deliver when it comes to economic activity and economic prosperity. That is where the accountability should be.

Michelle Thomson (Falkirk East) (SNP): Thank you for joining us, cabinet secretary. There are only a couple of areas that I want to explore. I will try to be quick so that all committee members can get in.

The first area is women in business, which the committee has discussed a number of times. It first came up when I put what I thought was a simple question to one of the business development agencies about the extent to which it routinely disaggregated its data for all business services by gender. After some humming and hawing, the answer came back that it did not really do that.

In your response to the committee, you say that

“preparatory work is being undertaken now to establish the actions needed to overcome, and ultimately remove barriers to participation”

for women in business. Will you give me a bit more flavour of that? What consideration is being given to putting conditionality in grant funding at some point in the future? How might data collection and perhaps conditionality work in public procurement? I appreciate that it is early days for the work that you are doing, so I am just looking for a flavour of that.

Kate Forbes: There is a lot in those questions. I noted the committee’s recommendation that covered some of the points that the member has raised.

The Scottish Government absolutely wants more disaggregated data to be published. We cannot deliver change unless we understand what the problems are, and the problems can be understood only if we have the data. We absolutely need to understand the data.

Some good work has been done. The Scottish Government has paid for or invested in studies and the provision of information on gender disaggregation, but we need to do more. We are planning for how we can capture and publish more information, particularly on gender, for future published analysis of businesses and their employees. I would like to come back to the committee and perhaps take your views on how we can do that as effectively as possible.

We are also working on how we can capture data on women-owned businesses and their participation in public procurement. That is an example of a specific issue.

Michelle Thomson: I note that there is also a role for the private sector. We need to consider getting it to change its behaviour, given that only 1 per cent of private equity funding goes to female-led businesses while 99 per cent goes to male-led businesses.

Moving on quickly, I have some questions about the Scottish National Investment Bank, which I am very interested in. Some people are not clear about the fact that the Scottish Government has no control over most regulations on property and labour markets, the international migration regime

or overall macro monetary policy. However, one of the key ways in which the Scottish Government can really make a difference—I am glad to see this happening—is by protecting the funding for SNIB after the withdrawal of FTs.

Despite that, the chair said in November that the bank would still like to be able to raise third-party funds. Have you considered that? The consumer prices index, which is reported today to have reached 5.4 per cent and is probably only going to get higher, will have an impact on the difference that the bank can make. Have you given any further thought to whether SNIB can raise money from private sources? Are you constrained in any way in allowing that?

10:15

Kate Forbes: No. That absolutely needs to happen. I would like to see it happen, and I would like to work with the Scottish National Investment Bank to enable it to raise third-party funds. You will know that it is undergoing a process as part of the bank becoming Financial Conduct Authority regulated, which is a key stepping stone on the road to it being able to raise and manage third-party funds. The bank is on that journey.

The chair said a few months ago, although I think that the comment was taken somewhat out of context, that the £2 billion overall capitalisation was never enough to meet the huge opportunities. I agree, and it was never intended that the bank would manage only £2 billion. The point was that it would be able to leverage and crowd in additional funding, and that is where we need to end up.

Michelle Thomson: Thank you for that clarification.

Maggie Chapman (North East Scotland) (Green): Thank you for what you have said so far and the information that you have provided, cabinet secretary. I have some questions about employability and skills. Will you give us an update on how the youth guarantee is going? How successful has it has been, particularly in reaching young people who have been dramatically impacted by the pandemic? How can we ensure that we continue to support young people, not only through the pandemic, but beyond it?

Kate Forbes: I will focus on the young persons guarantee, and Helena Gray, who is attending the meeting, will probably be able to provide a bit more information.

We have allocated funding to the young persons guarantee and I think that it is progressing very well. We are working well with partners and with private and public sector employers to ensure that there are opportunities for young people. In the early parts of the pandemic, we were concerned

that there would be a significant impact on young people's employability. Substantial funding has been made available and the ambitions have not changed. I will not overspeak on that, because I think that Helena Gray can flesh that out.

Helena Gray (Scottish Government): I am delighted to do that. We are developing a measurement and evaluation framework to support our understanding of the young persons guarantee. With our partners, we have developed a three-year evaluation plan that covers the three key themes of employability support services, employer engagement and education initiatives.

The annual participation statistics that were published at the end of August highlighted that the proportion of 16 to 19-year-olds in education, training or employment in 2021 was 92.2 per cent, which is a slight increase. We continue to develop our evaluation plans and to monitor the area really closely, but that is a headline statistic.

Maggie Chapman: That is helpful. I will move on to a linked issue. Cabinet secretary, you mentioned the clear context of the budget—the pandemic and the other issues that we are dealing with—and you have spoken about the support that is needed for businesses and the need to have excellence in what we do and not mediocrity across the board. You talked about the importance of making sure that people in our communities are ready for the labour market, but the labour market is not an end in itself; it is there to tackle some of the challenges and the structural inequalities that you mentioned will be included in the economic strategy.

Will you give us a little more information on how we can deliver the pace of change that we need around fair work and conditionality, not only in relation to fair work, but in relation to wellbeing as well? It could be argued that, if the economy does not create happy and healthy communities, it is failing on one measure. My question is about fair work, conditionality and the pace of change. Are we getting the balance right?

Kate Forbes: We could always move faster, particularly on fair work. I am very conscious of not just the moral imperatives, but the economic imperatives. To have a healthy, thriving economy with an ample supply of skills requires fair work to be embedded in everything that we do. If somebody who is in work is still in poverty, we have a problem, because we are therefore not tackling child poverty, or meeting our objectives on it, and skills interventions are not quite meeting the mark. We could always move faster.

On the fair work side, we are making significant progress on conditionality and ensuring that it is embedded in everything that we do. Public sector grants are an example, with the requirement to

pay at least the real living wage. As you will know, we have real limits when it comes to employability law, so we are using things such as conditionality instead.

However, there is another side to this. You said that it is not enough for people to just get into the labour market. The other side is how we help people to get into the labour market, and there is a particular budget point here. I need to say this carefully, but it is very budget intensive to help to prepare people for the labour market who have not participated in it for years, or in some cases decades. As you will know, there is significant investment in our no one left behind scheme for the long-term unemployed, but £20 million probably helps with 2,000 fair work opportunities, and there are more than 2,000 people who need those opportunities. That scheme is financially intensive, for good reasons.

There is a question for all of us about how we prioritise substantial sums of money to try to tackle economic inactivity while recognising that we cannot just leave people once they have participated in a scheme for a year.

Maggie Chapman: That is helpful.

The Convener: I have a supplementary question. The committee's recommendations to the Government mentioned the need to encourage employers to invest in employees in order to develop the skills base. You have talked about employability programmes, but the committee has evidence that, while businesses are experiencing labour shortages, the skills gap has produced an issue. Who has responsibility for that? Is there a budget line to address the skills gap, which would help with our productivity levels and our sluggish economic growth?

Kate Forbes: The overall responsibility falls within my budget, but the primary ministers who are responsible are Jamie Hepburn, who is responsible for skills, and Richard Lochhead, who is looking at fair work elements. They work together quite closely.

On budget lines, that is a really good point. I could go through the list, mentioning the national transition training fund, the no one left behind scheme and so on, and tell you about all the different things that the public sector is doing and where I am spending money, but you are asking where employers are spending money—

The Convener: Yes, or what the Government could do to incentivise employers to make that investment. Sorry to interrupt.

Kate Forbes: One way of doing that is to apply fair work conditionality. For example, if a company cannot access a grant or get a public contract unless it is investing in its employees, there is an

incentive for it to invest in its employees. The primary way of creating incentives is through conditionality. We are trying to embed conditionality in all forms of business support.

John Mason: As the cabinet secretary probably knows, I am a substitute member, so I am not quite so familiar with all the work that the committee has been doing.

I will follow on about conditionality. I presume that that is a lot to do with who Scottish Enterprise, HIE and South of Scotland Enterprise invest in. Maggie Chapman talked about wellbeing and fair work, but is conditionality on grants also linked to recipient businesses being committed to net zero?

Kate Forbes: At the moment, the straightforward answer is that we are embedding the programme for government commitment, which is that by the summer of 2022 we will have introduced, for public sector grants, a requirement that companies pay at least the real living wage. The focus right now is very much on fair work.

I am sure that many people would like to see us expand conditionality, but there is a tension, in that having too many requirements and conditions attached would mean quite a lot of hoops for businesses to jump through at a time when we want them to access support to grow and develop.

The situation is less clear cut in relation to net zero—which is not in any way to underplay it. We have had discussions about that with businesses that need support, but at the moment the requirement is about the real living wage.

John Mason: I take the point that we do not want there to be too many hoops to jump through. I was on the previous session's Economy, Energy and Fair Work Committee, which felt that Scottish Enterprise and HIE—there were just those two enterprise companies, then—were focused solely on the number of jobs that they could attract, and that things that Michelle Thomson mentioned, such as attracting women, were almost not on their radar. Has there been an attitude change? Do Scottish Enterprise and HIE kind of get it now?

Kate Forbes: I think that they get it, increasingly. My sincere hope is that they take the approach that once a strategy is published it will become a defining mission. There is a lot to be considered about dealing with structural inequalities in participation and about the benefits of a thriving economy. I think that the enterprise agencies are getting there. A more nuanced approach is being taken. Clearly, enterprise agencies are—to go back to the previous question—leading the charge on net zero, for example. They have expanded their approach.

John Mason: Thank you very much.

The third and final matter that I want to raise is ownership—co-operatives and so on—that I saw in the committee's letter, and in the Government's response. The committee feels—I agree—that the co-operative model can be very good. It keeps decision-making in communities, and such companies are less likely to be taken over and all that kind of thing. Is the Government investing in co-operatives? How does it see the mixed model of ownership?

Kate Forbes: Yes, we are absolutely doing that. The primary way that we do it is through working with Co-operative Development Scotland and the enterprise agencies to support the growth of co-operatives and other alternative business models. The matter is very much on our radar and we have mechanisms to work with and invest in alternative business models.

John Mason: We do not seem to have quite as many co-operatives and so on as some other countries. We can look at the Nordic countries, Denmark and so on. Can we make progress?

Kate Forbes: I think that we can make progress. That goes hand in hand with other work that we are doing on community wealth building, for example. On the economic opportunities that sit outside the traditional model of the past few years—the Companies House registered business—there are alternatives. We want to continue working with Co-operative Development Scotland and the enterprise agencies to support such opportunities.

The Convener: I have a supplementary question on that. I think that the target is that there will be 300 employee-owned businesses by 2030. We are making slow progress towards that. Are there interim targets to drive that change? Has the work of Co-operative Development Scotland, which is delivered by Scottish Enterprise, been mainstreamed across Scottish Enterprise? Is the option to change to employee ownership or a co-operative model always considered when SE is looking to support a business?

Kate Forbes: I am not conscious of an interim target. I can pause to see whether officials want to correct me. We can get back to you on that.

On mainstreaming, I might have responded to the committee's recommendation, so forgive me if I repeat myself. We promote use of the co-operative model; it is not just about supporting those who proactively seek support. How do we promote the model, provide advice and information to those who are considering it and provide training in co-operative business skills? If the committee has ideas about alternative models for mainstreaming the activity further, I am open to that. There is probably more that we can do to ensure that we meet the target.

10:30

The Convener: That was helpful, thank you.

Alexander Burnett (Aberdeenshire West (Con)): Good morning, cabinet secretary. I have a question on broadband. A number of constituents and private installers have contacted me about the voucher scheme and have said that it is not working properly and they are not getting any indication of when that will be resolved. It is also clear that the value of the vouchers will not cover installation costs, particularly in rural areas. I know that your constituency falls into that category. I would be grateful if you could comment on those points and provide an update on the timeline for completion of the reaching 100 per cent broadband programme.

Kate Forbes: We have extended the deadline for the voucher scheme because we understand some of the challenges for businesses. The overall value of a voucher is determined by whether a household or business property is likely to get access to commercial build or R100 build. The voucher is worth less for those that are in the scheme's scope. That might have come into it, but the deadline has been met. In terms of overall contract delivery date, you are probably more interested in the R100 north lot contract, which is expected to be let by 2026-27. The delivery years for the central lot and the south lot are earlier because the more remote and rural areas will require more investment and will take longer.

Alexander Burnett: Thank you. Will you review the value of the vouchers?

Kate Forbes: To be honest, we will probably not do that—unless the member or others can provide me with substantial evidence of a disconnect between the overall cost and the voucher scheme. The voucher scheme is supplemented by UK Government vouchers, which increases the overall pot that is available. The value of the voucher is determined by whether a business is in scope for R100 or not. If you are referring to those that are in scope, I point out that it is much harder to justify an increase because they will ultimately get broadband. However, I appreciate that they want it earlier; that is absolutely understandable. I have bigger concerns about businesses that are not in scope and are not having the overall costs covered.

Alexander Burnett: Thank you. I will forward examples of the disconnect between the scheme and the cost of installation.

I have a second totally different question on Registers of Scotland. Its budget for 2021-22 is down 25 per cent. Could you give us the reasoning behind that? It appears that registration is behind schedule, particularly for local authorities, which have not really started the

process. I declare my registration of interests in property.

Kate Forbes: I have two points to make about that. The first is that Registers of Scotland received significant Covid consequential funding this year. As part of the more than £639 million of Covid consequential funding, Registers of Scotland got—if I remember correctly—£14 million. If I am incorrect about that, I will get back to you.

Secondly, Registers of Scotland got substantial financial support because, of course, it raises income. I have been assured that it can still deliver its services within the budget that has been allocated.

The Convener: I have a final question for clarification. Does the cabinet secretary expect the medium-term financial strategy to revert to its normal publication date of May 2022?

Kate Forbes: On timetables, my intention is to publish that strategy following the UK spring statement, at least four weeks prior to the summer recess. If we are unable to meet that deadline for reasons that are outwith my control, the normal process is to consult the Finance and Public Administration Committee. We will make sure that the committee is sighted on that. That is my intended timetable for May.

The Convener: That is helpful. Thank you. That brings us to the end of the evidence session. I thank the cabinet secretary and her officials for joining us today. We will move on to our next item of business. I suspend the meeting briefly to allow the changeover of witnesses.

10:34

Meeting suspended.

10:39

On resuming—

Subsidy Control Bill

The Convener: The next item of business is a further evidence session on the Subsidy Control Bill, which is UK Parliament legislation. The bill's provisions cover the whole UK and impact on areas that are devolved to the Scottish Parliament and on the executive competence of the Scottish ministers. The bill continues its passage through Westminster; I understand that it is due to have its second reading in the House of Lords today. The bill establishes a domestic subsidy control regime for the UK following its exit from the EU, and it provides a legal framework for public authorities to make subsidy decisions.

The committee is required to consider and report on the Scottish Government's legislative consent memorandum. The Scottish Government does not recommend that the Scottish Parliament give its consent to the bill in its current form.

The committee took evidence on the bill last week, and we have a number of issues to follow up on and ask about this morning. I welcome Ivan McKee MSP, the Minister for Business, Trade, Tourism and Enterprise, who is joined by Hilary Pearce, the head of the European structural funds and subsidy control division; and Jen Willoughby, the head of the national and international regulatory alignment unit.

As always, I ask witnesses and members to keep their questions and answers as concise as possible. I invite the minister to make a short opening statement.

Ivan McKee (Minister for Business, Trade, Tourism and Enterprise): Thank you, convener, and good morning. I thank the committee for the opportunity to set out the views of the Scottish ministers on the proposed legislation. I look forward to taking questions. Before that, I will make a few brief remarks to outline my key concerns.

My first concern relates to the case-specific sweeping powers of the secretary of state to ignore the devolution settlement, and to the risk of UK ministers intervening in devolved areas without proper consultation or knowledge of local circumstances.

Secondly, the absence of formal regulatory and enforcement arrangements could undermine confidence in the process, and it could hinder the ability of grant-awarding bodies to make awards to recipients as they have done previously.

My third concern relates to the inclusion of agriculture in the provision. We believe that it should not be included for many good reasons.

My fourth concern relates to the time periods involved, particularly the fact that interested parties will have only one month to appeal any decisions.

Lastly, much of the provision remains unclear, even at this stage, due to the absence of draft subordinate legislation and detailed guidance. Notwithstanding the concerns of principle, the absence of such detail makes it difficult to take a considered view and give consent.

That is a brief outline of my concerns. I look forward to taking questions from the committee.

The Convener: Thank you, minister. Are you still in discussions with the UK Government? I know that we are at the latter stages of the bill making its way through Westminster, but can you see any possible amendments being made before the conclusion of the bill's passage?

Ivan McKee: We are still in discussions. At the end of last week, Mairi Gougeon, the Cabinet Secretary for Rural Affairs and Islands, and I met Paul Scully to go through the issues that I have just outlined, but we did not reach any agreement. We shared our concerns again, as we have done on many occasions. Officials continue to discuss such matters regularly, but unfortunately we have not been able to reach a conclusion on those important issues.

The Convener: I appreciate the tensions and frustrations that have built up around the bill. I asked last week's witnesses about that, and they suggested that some of the Scottish Government's requests, such as the ability to veto, would be unworkable and unrealistic. The UK Government would argue that it will take decisions in the best interests of the UK and that it will take Scottish interests into consideration. Do your concerns about that relate to a lack of clarity in the bill? It sounds as though there is distrust of the UK Government in relation to the statements that it has made. Are you seeking assurances that the UK Government will behave in the way that it has outlined when it comes to consideration of devolved Parliaments and nations?

Ivan McKee: You have raised a few different issues. The lack of guidance suggests a lack of detail, which makes it difficult to take a view on some issues. The inclusion of agriculture, as I mentioned, is clearly a concern.

Our concern relates to the use of powers in devolved areas of competence. The UK secretary of state will have powers across the whole UK—they will have a whole list of powers with regard to the operation of the scheme, when it is up and

running—but there is no equivalent power for the Scottish ministers in devolved areas. That imbalance runs against the devolution settlement.

10:45

We are concerned about that in principle, but we are also concerned about operational aspects, in relation to knowledge and understanding and the specific impact on Scotland. How events unfold in Scotland should have an impact on the nuances of any decisions that are made and on the relative importance of different decisions or subsidies, and the detailed knowledge of such matters is clearly in Scotland.

There is a point of principle about the powers and the erosion of the devolution settlement, but there is also the practical point that we are much closer to the issues than somebody in Whitehall would be.

The Convener: You have talked about uncertainty because of the lack of guidance. Last week, although it was recognised that the bill could present opportunities for different subsidies within the UK, there was a concern that the uncertainty would lead to risk aversion, particularly in relation to whether public bodies decide to make any investments. Do you recognise those concerns?

Ivan McKee: Absolutely. We are already seeing that. There are examples—I will not go into the details for reasons of commercial confidentiality—in which our legal teams have had to have a good look to understand whether we are able to move forward. They take, as they often do, a very safe view on what is and is not allowed. In the absence of the pre-authorisation process that existed previously, there is an inclination to operate on the side of safety, which means that we have to take a different view on things that we might have done in the past. That is obviously concerning.

Michelle Thomson: I want to focus on the specific example of the Scottish National Investment Bank. The rules are certainly not yet clear as to what determines market failure. SNIB was set up when we were in the EU, when there was a clear set of rules in that regard. The bill has now passed its third reading in the House of Commons, but we have no certainty whatsoever on the rules relating to market failure. We heard in last week's evidence that that could impact and limit our net zero ambitions. Do you have any specific concerns about SNIB, given its importance to Scotland's economic development?

Ivan McKee: Yes, I echo what you have just said. The underlying point is that there is a lack of clarity and a lack of available guidance. My understanding is that the bank has raised those points. Much of the bank's work involves lending

at commercial rates in a commercial environment, but in a scenario of market failure or a similar scenario in which the bank felt that there was a need to lend money, given its mission, it would require clarity on what was and was not allowed. The lack of clarity in the guidance raises a concern about what may or may not be possible.

Michelle Thomson: Given that the bill has been through its third reading, the suggestion is that it will be left to officials in the Department for Business, Energy and Industrial Strategy to further define the rules. We have our own constitutional consideration in the Scottish Parliament, but I suggest that, regardless of where you sit, having an unelected official in BEIS making the decisions, without reference to the House of Commons or to the Scottish Parliament and the Scottish ministers, is not entirely desirable from a democratic perspective. What is your view on that?

Ivan McKee: That is absolutely right and applies across a range of issues, and it goes back to the points that I made earlier. The bank will have to decide whether things may or may not be done under the subsidy control regime, and if the guidance is not clear, at the first level, that might stop the bank doing things that it might otherwise have done, because of those concerns. As you said, decisions on devolved issues would be made at the UK level, but devolved institutions should be making the decisions based on the specific economic environment in Scotland.

At all levels, it would be preferable and desirable, from a democratic point of view and from an economic and practical point of view, for Scotland to make such decisions and for the Scottish ministers to have powers equivalent to those of the secretary of state.

Michelle Thomson: I will ask a final wee question. Have you had any discussions about the potential cooling effect on much-needed investment in the light of post-Covid recovery? Surely any Government would want to encourage investment. It would surprise me if it did not. I say "cooling effect" because we have been told that the rules not being clear could lead to legal battles, which are obviously expensive, so the likes of local councils would probably not want to take the risk. Have you had any discussions about that? Have you made that point clear? Is it understood?

Ivan McKee: We have made that point repeatedly at every opportunity, as I said earlier. There have already been situations relating to support for investment in which there has not been the clarity that there has been previously. The view of lawyers is to be safe rather than to move things forward, so we have had to have discussions in that context, which is concerning because it leads to delays in the processes. As

you said, it has a chilling effect and slows things up. In some cases, it might prevent things from happening that otherwise would have happened, because we do not have clarity in advance on what is and is not permissible. Taking a safety-first approach could lead to advice being given that we should not go ahead with something, which is a concern.

As I said, that issue and many others, including the issue relating to the bank, have been raised repeatedly with the UK Government at official level and at ministerial level.

Fiona Hyslop: Good morning, minister. I want to cover agriculture. In its submission on the Subsidy Control Bill, NFU Scotland has said:

“It is critical that devolved governments can continue to develop agricultural policies that suit the unique domestic needs and policy ambitions that are essential for rural businesses and the communities and the economies they underpin. The inclusion of agriculture in the Subsidy Control Bill could severely constrain this.

Safeguards are already in place to secure the integrity of the UK internal market through existing international commitments (WTO Agreement on Agriculture) and the UK controls”.

It also says:

“Agricultural policy is devolved and must not be re-nationalised via the back door by UK-wide subsidy control measures.”

Given that even the agricultural leadership of NFU Scotland is saying that, in terms of your discussions, why is the UK Government including agriculture when it is not normally put together with other subsidies and subsidy control measures? Why is that happening?

Ivan McKee: That is a good question and we have raised it. The cabinet secretary, Mairi Gougeon, had extensive discussions with Paul Scully on this last week. The position that you outlined is correct. Agriculture is normally excluded from subsidy control regimes. It has separate treatment by the World Trade Organization and the EU, through a separate process.

Secondly, agriculture is fully devolved. It is a prime example of an area where we are seeing encroachment of UK Government powers into devolved areas.

Thirdly, of course, Scotland has specific circumstances. That goes back to the point that was made earlier about the fact that the characteristics of the sector in Scotland are different to those in much of the rest of the UK, which means that the ability to have different regimes for subsidies in agriculture within Scotland in practical terms may well evolve over time. Clearly, given that it is a devolved area, we want Scottish ministers and the Scottish Parliament to

be able to make decisions on the most appropriate subsidy. Control regimes in wider WTO and trade agreement limitations help us to do that and not to be running the risk of falling foul of concerns raised south of the border about what we are doing. I believe that the Welsh Government is aligned with our position on that.

Fiona Hyslop: Can you make clear that the Scottish Government is in support of subsidy control measures but that they have to be the right ones for Scotland? The Subsidy Control Bill is a consequence of Brexit, but even those in favour of Brexit wanted to see economic growth. As we have heard, risk aversion is implicit in the practical measures of this legislation. If the UK Government could deal with the constitutional aspects and the asymmetry of this, everybody could focus on trying to get the bill right in terms of its measures.

If we forge ahead on net zero with a combination of contributions from the private and public sectors, there is a real danger for one of the biggest areas for economic growth, not just for Scotland but for the rest of the UK. Those practical measures, if they are not addressed—whatever your views on Brexit—will end up having a negative drag on what should be an economic growth opportunity. What are your comments on that?

Ivan McKee: You are absolutely correct, and you are right to raise the importance of a net zero Scotland. We have seen the developments with ScotWind this week, and there are many examples of Scotland’s globally leading position in many of the technologies and opportunities in relation to the just transition to net zero. We need to be in a position where we have the ability to provide support as we see fit within a set of rules that is transparent, clear and predictable. All of that is important.

If you are asking me whether there is a risk that, as a consequence of where we are at the moment with this bill, we will find it difficult, more time-consuming or impossible to do things that we would otherwise do, I would say that that is absolutely the case. There have already been examples where support has been delayed and we have had to deal with a more complicated process internally as a consequence of a lack of clarity on the guidance and where that takes us.

In answer to your earlier point, of course we agree that there should be subsidy control or state aid regimes in place. It is essential from a good governance point of view and from a global trade point of view that we have those rules at the global level, a bilateral level and EU level. We absolutely recognise the need for that because it works in both directions. It gives certainty to Scottish exporters as well as giving certainty to the steps that the Government and others take within

Scotland. The key point is that there needs to be clarity and a process that allows those decisions to be clear in advance and allows for clear guidance about what can and cannot be done.

Maggie Chapman: Good morning, minister. I want to explore the impact on economic development a little more. We know that the economic development landscape in Scotland is different to that in the rest of the UK and we have heard in the evidence we have already gathered that this new regime has the potential to create greater uncertainty, higher costs and more risk aversion, and that there is a particular issue around the incentive for more community-based support and community-focused schemes. Can you outline some of the impacts that you have identified in this area? If we can mitigate them through discussions with the UK Government, that is fine, but if we cannot, what options are open for us to ensure that we do not suffer those negative consequences?

Ivan McKee: Yes, that is a concern and I know you have taken evidence that has covered some of these issues already from COSLA and others, who will be closer to some of the practicalities of this. From a Government and Government agency point of view, we are in a position where we can access legal advice and we can take a view on things. We are typically talking about larger sums of money, bigger investments and so on. It makes the process more complicated, more difficult, more challenging and more uncertain, and, for smaller organisations that are dealing with the issues and trying to support economic development locally, those challenges are multiplied. It is too early to see examples of the impacts that you mention, but I have concerns the situation that you outline may well be the case.

11:00

On the second part of your question, which concerned what we can do about it, clearly, we will continue to challenge the UK Government on these issues, but we are open to having conversations about the specific organisations that may find themselves in that situation and how we could work with them to help them navigate the uncertainties that exist as part of this process.

Maggie Chapman: One of our concerns, as Fiona Hyslop has already mentioned, is the asymmetry of power as it applies to the balance between communities at a very local, if not regional, level. I appreciate what you say. It may be too early to identify examples of issues arising, but are you or your officials looking at a specific area of work to ensure that we do not lose very specific community-focused development opportunities that may not apply or relate to some of the broader principles and broader examples

that would be done on a bigger geographical level?

Ivan McKee: Yes, we are very conscious of that. I know that the Cabinet Secretary for Finance and the Economy was with you earlier and that you spoke about the guidance and so on. Those issues are very much to the fore in terms of how we support local economic development. It is a priority for the Government and for me.

The issue will be the chilling effect. Risk aversion is part of the issue. We need to be open and clear with those in Scotland who may find themselves in that position. They may look at something and think that it is too difficult and that they do not want to take those risks.

For us to understand examples of that, it is important that they are brought to our attention. We are open to having those conversations and to looking for examples with local authorities and others of where that may be a risk so that we are aware of it and are able to work with those who might be affected and can help them navigate the process as necessary.

John Mason: As the minister may know, I am a substitute member of the committee, so I may not be quite as up to speed as some of my colleagues on this subject. I noted your fifth point in your introductory comments, which was about lack of detail and I want to focus on that. I saw in last week's evidence that Professor Steve Fothergill talked about how the lack of detail in the bill is worrying, so I want to explore that a little bit more. There was also the argument that EU legislation in the past and state aid was all very much a tick-box process and was very black and white, but the new approach is meant to be more principles-based. What is your view on that?

Ivan McKee: I looked at some of the evidence from last week and that is absolutely the case. There has been a shift from a much more rules-based process to one that is more open. The principles are laid down, but the most important part is how different people and organisations interpret them. The risk of organisations not taking steps that they properly should in terms of economic development and other opportunities is a concern.

I will hand over to Hilary Pearce in a minute to give a bit more detail on the conversations that our officials have had with the UK Government about guidelines and some of the specific gaps there. Suffice it to say that, although there have been a lot of conversations with the UK Government at ministerial and official levels, the reality is that the UK Government has been slow to come forward with the details of what the guidelines look like underneath the very broad-brush principles. That matters because organisations need to

understand where the lines are, what is allowed and what is not allowed in various scenarios, which may not be obvious from the broad-brush principles.

Hilary Pearce (Scottish Government): Scottish Government officials in my team and in agriculture have had fairly regular engagement with BEIS and Department for Environment, Food and Rural Affairs officials on the details of the bill and the guidance and subordinate legislation around it, but that has tended to be in the form of briefings by UK departments to us. There has been little of the joint working that we would have wanted or expected. We have a meeting set up for next week to talk about the definition of subsidies of particular interest and points that the devolved Administrations want to make around that, but it is late in the course of the bill to look at that level of detail. That is fairly concerning.

John Mason: Thanks for those helpful responses. Scottish Enterprise and others mentioned the specific phrase, “streamlined subsidy schemes”, which seemed to be an area that they were looking for a lot more guidance on. I take the point that there has not been an awful lot of discussion up until now. Do we expect the UK Government to consult on all of those guidelines and secondary legislation or do we not know?

Ivan McKee: It has had consultations at a general level but I am not aware if it will do consultation on the guidelines—Hilary Pearce might know that. You are right to say that we are waiting to see what it will come forward with. The streamlined area is an example of one where the secretary of state has powers that the devolved ministers do not have. That is concerning because, if there was any debate about what the streamlined powers allow or do not allow or how they operate and when they would operate, the decision would be up to the secretary of state and, even if the issue involved a devolved matter in Scotland, we would not have any ability to act in the same way.

Hilary Pearce: On streamlined areas, the UK Government has just started to consult the devolved Administrations on our thoughts about that, but that has only just started happening, and, again, it is very late in the day. The difficulty is that we cannot be clear about the impact of the bill as a whole in all sorts of areas because we are so far behind in knowing what the guidance will look like. It is difficult to judge.

John Mason: That is helpful. To tidy up with a final point, does the Scottish Government want to have the decision-making power in streamlined subsidy schemes or would it just want to have input into the wider scheme?

Ivan McKee: Our ask is that devolved ministers would have equivalent powers to the secretary of state in that regard.

Colin Smyth: During the bill’s passage in the UK Parliament, particularly at committee stage, Labour has highlighted the key issue of the lack of a preferential system for support to disadvantaged regions. How should targeting areas of economic deprivation be reflected in the bill?

Ivan McKee: It is possible to identify more disadvantaged areas, outline what those disadvantages are and have scope to deploy support in a different way to those areas. Such a process has been in place previously through EU processes; it has different categorisations of regions.

As I have said, from a regional economic development point of view, we are focused on supporting all regions and communities in Scotland to maximise their potential. That might require support to encourage investment or other activity. We want to be able to take those steps in a different way, depending on the specific needs of different parts of the country. It is important that we have that ability and that there is clarity around that, but there is no provision for that in the bill. It is interesting how that works against the UK Government’s stated aim of levelling up. That is another area in which there is a lack of clarity as to exactly how the measures will operate.

Colin Smyth: On the issue of levelling up, we took evidence from Professor Fothergill last week. He highlighted that very point and questioned how you could have a levelling-up strategy without an assisted-areas map. That is not specified in the bill. Does the Scottish Government share the view that provision for an assisted-areas map be specified in the bill? COSLA has suggested a new clause 7 in the bill to define an assisted area. As you said, that concept existed in EU state aid.

Ivan McKee: We must have clarity. As has been said, there are questions about exactly how things will operate and there are concerns about the lack of guidance. There are also concerns that decisions would go to, and fall under the powers of, the secretary of state. Decisions will be taken at the UK level without regard to what is happening in Scotland or in other devolved Administrations.

On whether there should be more detail in the bill, and certainly in the guidelines, on there being different scope to act in different parts of the country, we support that call.

Jamie Halcro Johnston: At last week’s session, I asked Professor Bell and George Peretz about transparency. I highlighted Prestwick Airport Ltd, GFG Alliance and Ferguson Marine as examples in which large amounts of taxpayer

money has been used to support businesses and there have been, in some cases, concerns about the transparency of those deals and the lack of ability to scrutinise them for a number of reasons. Will the bill improve transparency on the use of public money? Do you have any concerns in that regard?

Ivan McKee: We have made representations that there should be a review of the timelines in the bill. I mentioned in my opening remarks that interested parties do not have long enough to appeal. We think that the one-month period in which to give notice of an appeal could be extended to allow those parties to raise any issues. In terms of transparency, that has been our commentary on the bill.

Jamie Halcro Johnston: Will the bill improve transparency and the ability to scrutinise deals, or will it not have an impact? I am thinking in particular about the GFG Alliance case.

Ivan McKee: Transparency will depend on how good the database is. Awards will be logged on to the database and the information will be available for people to access and look at. However, much will depend on how effectively the database operates—I know that there have been teething problems with the database that has been used for the subsidy control regime. Providing that the database works as it should, that information will be available for people to interrogate.

Jamie Halcro Johnston: Thank you for that. There also seems to be concern or confusion over what might be considered to be a subsidy and what might be considered to be a straightforward loan. Government loans and guarantees have been used, but there are also straightforward subsidies. Are you confident that the definition, either in the bill or generally, is clear enough?

Ivan McKee: That is one of the areas in bill in which it is important to have guidelines. We have talked about the Scottish National Investment Bank. Much of what it would do would fit in that space. More detail and clarity in the guidelines as to how that aspect will be looked upon in the regime would be helpful.

11:15

Gordon MacDonald: Minister, I want to ask you about the power to refer to the Competition and Markets Authority. In last week's evidence, one witness said:

"it must be possible for the devolved Administrations to have recourse if they feel that activities in England are undermining their competitiveness or their own markets."

Another witness said:

"Amendments to that effect were tabled in the House of Commons ... The amendments were voted down."—

[*Official Report, Economy and Fair Work Committee*, 12 January 2022; c 33, 31.]

Given that the Scottish Government has responsibility for economic development, will having to go to the secretary of state to make such a referral undermine the devolution settlement?

Ivan McKee: Yes, it would. One power in a list of powers that the secretary of state will have under the bill is that he or she will be able to operate in devolved areas and on devolved matters. We rightly believe, as do the other devolved Administrations, that equivalent powers should be available to devolved Administrations to do exactly as you have said and to address issues. For example, if we saw a potential distortion, we should be able to refer the matter to the CMA and go through the process in the same way as the secretary of state can.

Gordon MacDonald: Given that we have tried to amend the bill, where does that leave us in moving forward on that issue?

Ivan McKee: We continue to push for amendments to the bill in the later stages. At the end of the day, it is a UK bill and the UK Government will take it through Westminster as it sees fit.

We will continue to make the case, argue for those amendments and work with others of a similar view to make changes where we can. However, as I said, the bill will progress through Westminster based on what the UK Government decides it wants to include. It is of concern that the amendments have not been taken on board, which is one reason why we are not recommending that consent be given to the bill.

Gordon MacDonald: On another similar issue, the CMA has a subsidy advice unit. The House of Commons heard from the Institute for Government, which said that the unit

"should have a membership and input reflecting its foundation role in the UK and ... it is appropriate that there be better devolved representation." —[*Official Report, House of Commons, Subsidy Control Bill Public Bill Committee*, 26 October 2021; c 32.]

Given where we are with the bill, is there any scope for that still to happen?

Ivan McKee: To be honest, I am not fully up to speed on where we are with the membership of the unit. Hilary Pearce may have more up-to-date information.

From our point of view, we want proper regard to be given to the specific concerns of and issues in the devolved Administrations in relation to the membership of the unit. To do their jobs properly, it is essential for the unit's members to understand the various ways in which things are done differently in the devolved parts of the UK.

Hilary, are you aware of the situation with membership of the unit?

Hilary Pearce: We have raised the issue with BEIS. The Competition and Markets Authority subsidy advice unit is staffed by the CMA as an independent body. We have asked if devolved Administration representation can be considered, but we have not had a response on that yet.

The Convener: I will now move to Alexander Burnett.

Alexander Burnett: Convener, my question has already been covered. I have no further questions, thank you.

The Convener: I thank the minister for his evidence this morning. Do you have anything to add that you feel has not been covered?

Ivan McKee: No. Thank you very much for the questions. We have covered all the issues that we wanted to raise, and it is good to get the committee's perspective on the issues.

The Convener: You have expressed a desire to amend the bill before it is concluded. If the bill is concluded in its current form, even if we do not approve a legislative consent motion, is the Scottish Government starting to plan how it will try to work with that piece of legislation?

Ivan McKee: Yes. It is already the case that we work within the interim regulations that are in place. As I said earlier, there have been examples already where we have had to make decisions on whether we feel support is within or outwith the rules, vague as they are. We will do our best to work within the legislation, but that might be more challenging, complex and difficult than it need be.

The Convener: Thank you, minister. I now move the meeting into private session.

11:20

Meeting continued in private until 11:50.

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