



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy and Fair Work Committee

Wednesday 26 January 2022

Session 6



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CONTENTS

	Col.
DECISION ON TAKING BUSINESS IN PRIVATE	1
SCOTLAND'S SUPPLY CHAINS	2
SUBORDINATE LEGISLATION.....	31
Registers of Scotland (Digital Registration, etc) Regulations 2022 [Draft].....	31
Consumer Scotland (Designated Regulators) Regulations 2021 (SSI 2021/465)	37

ECONOMY AND FAIR WORK COMMITTEE

3rd 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:

Tom Arthur (Minister for Public Finance, Planning and Community Wealth)
Graham Fisher (Scottish Government)
Ivan McKee (Minister for Business, Trade, Tourism and Enterprise)
Harry Murray (Registers of Scotland)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

Virtual Meeting

Scottish Parliament

Economy and Fair Work Committee

Wednesday 26 January 2022

[The Convener opened the meeting at 10:00]

Decision on Taking Business in Private

The Convener (Claire Baker): Good morning, and welcome to the third meeting in 2022 of the Economy and Fair Work Committee. Today's meeting is being held virtually.

Our first item of business is a decision on whether to take items 6 and 7 in private. Are members content to do so?

Members indicated agreement.

Scotland's Supply Chains

The Convener: Our next item of business is the final evidence session in our inquiry into Scotland's supply chains. We are looking at the short and medium-term structural challenges facing Scotland's supply chains and how the challenges and shifts in them are impacting on Scotland's economy. We are also aware of a number of longer-term challenges that need to be addressed.

We want to consider how to build future resilience and whether there are opportunities to build up domestic supply chains within Scotland. The committee has structured the inquiry around the themes of people, places and product. We are looking to explore those issues with the minister and his team this morning.

I welcome Ivan McKee, the Minister for Business, Trade, Tourism and Enterprise. I also welcome his officials from the Scottish Government: David Barnes is interim deputy director of trade policy; George Burgess is deputy director in food and drink; Lewis Hedge is interim deputy director of fair work and labour market strategy; and Dermot Rhatigan is deputy director in manufacturing and industry.

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

The Minister for Business, Trade, Tourism and Enterprise (Ivan McKee): Good morning, and thank you for inviting us to join you.

As the committee knows, Scotland is part of a global economy. International trade is an important mechanism through which we can enhance our place in the world and build diversity in our supply chains. Recent events, including Brexit, Covid, the blockage in the Suez canal and other challenges, have exposed vulnerabilities in our supply chains. Scotland's remote communities, in particular, often suffer disproportionately through being at the end of long supply chains or requiring smaller volumes of products.

This has been a challenging time for many businesses, but we have also witnessed tremendous resilience and ingenuity. Supply chain shortages have accelerated change, created new opportunities for some Scottish firms and prompted innovative solutions. Perhaps the clearest example was the sourcing of vital national health service supplies such as personal protective equipment throughout the pandemic.

We witnessed companies diversifying from producing whisky to producing hand sanitiser, electronics firms repurposing production lines and

subsea specialists turning to making ventilators in previously unimaginable timescales. Pre-pandemic, all our PPE was sourced from abroad; now, with the exception of gloves, the vast majority of it is manufactured here in Scotland.

Some firms have gone on to develop innovative new products that are being sold to the rest of the world. Alpha Solway, for example, a Dumfries-based company, recently developed a transparent mask that is one of only a handful of such masks that are United Kingdom approved and available on the market today. Demand for that product has extended overseas, with recent orders having been placed for millions of those masks by clients in the European Union, and additional opportunities are emerging.

We will continue to maximise supply chain opportunities for public sector procurement, and our investment in economic assets such as the National Manufacturing Institute Scotland, innovations centres, the Scottish manufacturing advisory service and others will support manufacturers to adapt to changes and constraints in the supply of materials and components. In addition, I have a programme of work on-going with port and airport operators and others to determine the scope for Scotland to export more of our products directly, thus increasing resilience and reducing our carbon footprint.

In its sessions so far, the committee has highlighted that the labour market has tightened and vacancies have increased. We are working with business organisations to develop our working with businesses action plan, which is focused on employability skills and fair work principles, to identify actions to mitigate the impact of labour shortages. We are investing more than £1 billion this year to drive forward our national ambition for jobs and an additional £500 million in this session of Parliament to support new jobs and to reskill people for the good, fair and green jobs of the future. We continue to call on the United Kingdom Government to make changes to the immigration system to combat shortages of skills and labour following the exit from the European Union.

Our new 10-year national strategy for economic transformation will focus on developing the skills that Scotland's future workforce needs and on maximising the use of Scotland-manufactured components in areas of new market opportunity.

Robust and resilient supply chains are the bedrock of a thriving economy. We must take every opportunity to strengthen Scotland's supply chains.

I look forward to our discussion.

The Convener: I have some questions about people and skills in the labour market, which you referred to at the end of your statement.

When people think about supply chains, they often focus on products and commodities. We found in our earlier evidence sessions that a lot of the gaps that put pressure on businesses are connected to people and skills. Businesses might be able to source products but have issues with the logistics of getting those here.

One issue that we raised with Skills Development Scotland and the Open University was inactivity in the labour market. That might be a consequence of the pandemic, but there are people who are far away from the labour market or who lack the right skills to get into the labour market. Audit Scotland recently published a report that criticised the way in which skills services are delivered. There are real challenges for the Government, for Skills Development Scotland and for Colleges Scotland.

Can you comment on the Audit Scotland report? How will you respond to the issues that it raised in order to address labour shortages and the pressures that we see in the supply chain?

Ivan McKee: You are right to say that there is labour market inactivity: 22 per cent of Scotland's working age population—those aged between 16 and 64—are not economically active. That is about 750,000 people. That proportion is broadly similar in the rest of the UK. If we delve into that, we find that there are a number of reasons for it. Some are valid reasons. People may be in education, have childcare responsibilities or be in poor health, and there are other reasons.

We have undertaken a programme that we will talk more about in our national strategy and that will help us to understand and address the issue. Our access to international labour has been challenged by Brexit. It is becoming increasingly clear that we must focus far more on how we tackle labour market inactivity.

Some of that will come down to the expansion of childcare that we are undertaking. That will enable parents to return to work sooner if they choose to do so. Some of it will come from transport links. Our strategic transport projects review, which was published recently, addresses some of those issues so that people can get to economic opportunities. There will be work to increase skills and to make some of the people who are furthest from the labour market more aware of the opportunities that can smooth their transition back into work if they have been out of work for a long time.

We are focusing on a plethora of different aspects. We must address the issue, not only because it is the right thing to do for individuals but

because we can support businesses by giving them access to the pool of labour that is available in Scotland.

Do you want me to address any specific aspect of the Audit Scotland report?

The Convener: I appreciate that you are not the lead minister for the skills portfolio, and that the report talks more to that agenda.

There were some concerns about the sector's ability to deliver for people who need it and to co-ordinate that with what businesses need. There is a need for an improved working relationship between Skills Development Scotland and Colleges Scotland.

Ivan McKee: Lots of bits of that need to be joined up. You will have heard from witnesses in some of your previous sessions that this is a moving target. It is notoriously difficult to predict skills shortages years in advance. We need closer alignment between the skills system and businesses.

The approach must be about having the right mix of practical skills that we know will be required and ensuring that young people go right through their whole careers with the ability to reskill and to understand the opportunities that are available and the support that they can get. As I said, we are spending more than £1 billion to support the skills system and an extra £500 million on top of that over the course of the session of Parliament to focus on that issue. I talk to businesses every day and skills is the number 1 issue, notwithstanding everything else that is going on.

We are hugely seized of the need to focus on that. As I said, it is about ensuring that the skills system is increasingly aligned with the needs of business. We have those clear routes of communication so that we can ensure that there is an understanding of what is required, but as I said, the system also needs to be very agile, because it is aiming at a moving target.

The Convener: We also took evidence on the Logan review on the digital skills gap. As you are speaking to businesses, you will know that that is one of the big issues. It is not just about those people who are far away from the labour market and need the skills to enter it; there are also those who are in the labour market and need to improve their skills and access the digital skills that we need in the modern age. Is there a timeline for the implementation of the Logan review's recommendations?

Ivan McKee: It is on-going. There are dozens of aspects to that across the education system. Some of that, such as doing more computer science teaching in schools, is obviously going to take time because of the resource in terms of

teachers that are able to deliver those courses. As Mark Logan raised in his report, that is a challenge in itself—we need to deal with that and then roll out the courses across the school curriculum. It is hugely important. Coming from a science, technology, engineering and maths background, I know how critical that is.

Other aspects of the report's recommendations, such as the roll-out of the tech scalars, are on-going. There are different timescales for the different recommendations and action points in the report. To his credit, Mark Logan has kept up the pressure. We are asking the Government and the system to do things differently. I am keen for the Government to be more agile, responsive and able to execute initiatives such as those that are proposed in the work that has been undertaken by Mark Logan. We continue to push that along as fast as possible. We are on the right track.

The strategy for economic transformation will come out shortly and that builds on the work of the Logan report, extending it to other sectors and parts of the economy. It broadens the approach to tech scalars and supporting those growth businesses, as well as focusing on the skills aspect and ensuring that people in the early stages of their career and mid-career are able to retrain in tech, coding skills and digital skills of all shapes and sizes in order to meet the broader requirements of the new industries that we are developing in Scotland.

The Convener: The committee is looking forward to the publication of the 10-year strategy. We had hoped to see it before Christmas, but I appreciate that it has been delayed. You are suggesting that the Logan review will be integral to the new strategy once it arrives, which is welcome.

I will hand over to Maggie Chapman, who has questions on a similar topic.

Maggie Chapman (North East Scotland) (Green): Good morning, minister, and thank you for your opening remarks. I want to extend the discussion a little around labour and the gaps in skills and training. As you said, it is difficult to predict where some of the gaps are going to be, but there are some clear instances where we know exactly what is needed now and what will be needed in the future. There are some areas where we have clearly identified the problem and the digital skills gap that you have mentioned is one of those areas.

10:15

We already know from the construction industry that in order to meet its net zero targets it will need 22,500 additional members in its labour force over the next few years, and we also know that in the just transition away from hydrocarbons, whether

that be in energy or other sectors, there will be significant requirements for agility and flexibility.

I have a couple of questions in that respect. First, how do we ensure that we meet the need for the additional workforce numbers in construction? Secondly, with regard to just transition, how do we ensure that the uptake of the skills and training opportunities that we are planning for and which are in train will be effective in delivering the changes that we need?

Ivan McKee: Those are good questions. The first point that I would reflect on is the suggestion in your question that we know where the gaps are. It is one thing to say that the construction industry needs 22,000 people, but the question, then, is what skills are needed. Clearly, a wide range of skills is required on any construction site.

We also need to look at the trends in the sector. At the moment, we are doing a lot of work on developing capacity, capability and innovation in off-site manufacturing, which moves a lot of construction work in modular form into factory settings and therefore will require a different skill set. There has also been a shift in the materials that are being used as a consequence not only of shortages but of the transition to net zero, with more timber structures—or, indeed, different types of timber structure—coming into play, and the types of skills that are required to support all that work are different, too. The situation is evolving over time, and it is important that we stay close to it.

Likewise, we talk about digital skills, but the fact is that coding languages evolve every year or two. I am not an expert in the area, but when you look at the requirements involved, you can see how someone who was trained in coding 10—or even five—years ago might find that their skills are largely out of date. It is therefore important that they understand what the new coding requirements are and can upgrade accordingly. Of course, that is different from the broad-based digital skills that are required by people who are not necessarily involved in digital work all the time but who might need to know how to work a spreadsheet, for example, or how to deal with certain digital connectivity issues. We should understand that, even within such broad buckets, there is a whole range of different issues to take into account.

As for the question of how we get people to take advantage of these things, you are right to suggest that there will be a whole range of things involved in that. Some people will be very hungry to take part and will see it as an advancement and an opportunity to up their income and to put themselves in a more advantageous position, while there will be others whom you will need to make aware of the opportunities. That sort of thing

will extend through the whole piece, so there needs to be closer engagement between business and schools to ensure that the young people who are coming through understand what the opportunities are, are able to set their sights on achieving them and can see how their choice of subjects or decision about whether to go into further or higher education reflects the types of careers and opportunities that exist and how they can take advantage of them.

Similarly, people in mid-career might decide to reskill, and there are some great initiatives in, say, coding training out there. We will look to develop that aspect. There are also, unfortunately, people who are facing redundancy and the partnership action for continuing employment—or PACE—initiative is there to support them. Again, a huge priority is to make people aware of the different retraining opportunities that exist.

I have also mentioned labour market inactivity. How do we ensure that people who are out of work for health reasons but who might be able to work, say, part-time or in certain employment can focus on getting the essential skills that they need? Moreover, people who are returning to the labour market after having a family need to be aware of what is available. We are talking about hundreds of thousands of people, but the training programmes are there and the Scottish Government is putting in a significant amount of funding. That said, you are absolutely right; we need to join all of this up and ensure that provision reflects what businesses need now and in future and that people are aware of what is available. It is something that we are constantly focused on.

Maggie Chapman: Thank you—that was really helpful.

Perhaps I can dig a little deeper into your opening remarks, in which you talked about the diversification that many businesses undertook so that they could provide the things that we needed during the pandemic. Obviously there were financial incentives for them to do that as well as a moral imperative. Many of us would argue that there are similar imperatives around just transition.

You said that some people choose to reskill and retrain, perhaps particularly in energy and away from hydrocarbon energy intensive industries. There is a role for the funding and support of training and reskilling, and for courses to enable people to get the skills for the future economy. However, is there also something around incentivising people so that choice becomes easier to make?

There is something about labour market workers feeling that they have no choice and no power in all this. Is there something that we can be thinking about and implementing to support people? We

talk about the labour market and the workforce as amorphous things, but they contain people, members of communities and individuals with hopes and dreams. That often gets lost in some of the planning, and sometimes even in the implementation. How do we bridge that gap?

Ivan McKee: Maggie Chapman is right. We need to dig a bit deeper and understand what is going on.

For example, energy is not a scenario where you have fossil-fuel production on one side and renewables on the other and where the two are completely different things that are completely divorced from one another. They are not. The businesses that are involved in one side are almost always involved in both. The newer businesses in renewables that are specifically focused on new technologies are not, but the legacy businesses that are in fossil fuels are transitioning. Pretty much every business in that sector is on that journey and is reskilling its workforce as it makes that move. A lot of the skills are transferable, and that can be done quickly. For example, a lot of the offshore and deep-water skills are transferable from oil and gas platforms to floating offshore wind. A lot of that will happen on the opportunities side as we move the production over to renewable energy.

There are other areas where there is a bigger gap in relation to the skills that you need to acquire to transfer. It is fair to say that this has got a huge profile. You turn the television or radio on and we are talking about those issues, particularly off the back of the 26th United Nations climate change conference of the parties—COP 26. People are aware of that when they are making decisions on where they want to have their career.

Ironically, one of the comments that you get from oil and gas production is that younger people in particular do not want to go and work for them anymore, which is perfectly understandable. They are focused on net zero, understand the climate emergency and want to be in the sectors of the future. There is that pull from the technology as things move over and that push from people at all stages in their careers who want to be in the sectors of the future.

Our job is to provide the bridge that allows them to have those training opportunities. However, it is not only us—the private sector businesses are also hugely invested in that. We work closely with them and they are doing a lot of the heavy lifting. Obviously, it is in their interests; however, from our point of view, it is also the right thing for them to do. Have we got everything absolutely perfect? Of course not. However, an awful lot is happening that is moving us increasingly in the right direction.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Scotland is facing an acute demographic challenge, perhaps even when compared with the rest of the UK. Inward migration has, over a number of years, been the key driver of population growth. Does the Scottish Government have levers to attract the inward migration that is necessary in order to reduce labour shortages? Have there been discussions with the UK Government on Scotland's particular issues?

Ivan McKee: We have some levers. However, clearly, there are many levers that we do not have. I will talk briefly about the ones that we do not have, and then about the ones that we have.

We do not have control over immigration powers internationally. We constantly ask the UK Government to be more flexible about those, both in relation to the ridiculous restrictions that it has put on labour coming from abroad and in relation to devolving immigration powers. Countries including Australia and Canada use a degree of devolution of immigration powers—it is a model that works perfectly well, so there is no reason not to do it. Clearly, we want to be back in the European single market and it is our ambition to deliver that, which would resolve many of the issues.

On the levers that we can pull, there are things that we can do about labour market inactivity and bringing more people into the labour market. There are also things that we can do to focus on immigration from the rest of the UK into Scotland. At the moment, there is a net inward immigration from the rest of the UK. About 30,000 people leave Scotland every year on average, and about 40,000 to 41,000 come into Scotland from the rest of the UK. That is a net positive; we are increasingly focused on maximising that to tackle specific skills challenges.

I have a programme under way with businesses and others to understand how we can target the message more effectively and get it out there, and to consider how we can work to increase net inward immigration from the rest of the UK into Scotland. I think that there will be increasing focus on that programme because it is one of the few levers that the Scottish Government can pull in this area, given that we do not have control over international immigration powers.

Colin Beattie: We hear a great deal about the many skilled migrants who came to us from Europe while we were still a member of the European Union, and who have returned to the EU. In particular, we hear that shortages in social care and construction, for example, have perhaps been exacerbated by that. Do you have a firm idea of the actual impact of Brexit on the skills shortages that we are facing?

Ivan McKee: The impact of Brexit has been significant. There is an issue around unpicking that impact from the Covid situation, which is difficult. When a person leaves Scotland to return home, we do not know whether it is for personal or other reasons that they want to be back in their country of origin. The current situation makes it much harder for them to move back and forth if they have family commitments in Poland or wherever; Covid has made that much more difficult. People might choose, as a consequence, to stay in their country of origin once they have gone back there.

However, I say without a doubt that Brexit has made a huge difference. Covid restrictions are subsiding and international travel is opening up again; we would, in normal times, expect the labour market to open up. However, Brexit has stopped that.

The UK Government's hostile approach to immigration and immigrants makes things very difficult. We saw that in relation to the message that the UK Government was sending out to heavy goods vehicle drivers, which was just ridiculous. It was counterproductive and really unhelpful. Its message was that although we expect those people to drop everything and change their lives to come and help us when we need it, we will only allow them to come here for a short time. Of course that was not going to work.

Brexit has had a huge impact. As we move beyond Covid, it will become increasingly obvious that it is acting as a huge brake on Scotland's economic potential.

Colin Beattie: On Brexit, new restrictions on imported products from the EU came into effect on 1 January. Do you have any sense of what the impact of those restrictions is on Scottish businesses? I know that it is early days, but perhaps there are some early indications.

Ivan McKee: The restrictions are another barrier. They make life difficult and they make business difficult. They make harder things that should not be that hard. They make things uncertain, as well, because of all the paperwork requirements. All kinds of clearances are required, and there are various rules and regulations that just put red tape in the way of businesses. The situation is hugely unhelpful. It clogs up supply chains and eats away at the agility of businesses and their capacity to respond as they should.

As you said, the increased restrictions have just come in, so it is too early to say what their specific impact has been. That is another example of the UK Government placing ideology above the needs of business.

Colin Beattie: Is there anything that the Scottish Government can do to ease any of the restrictions that have been brought in, or is that

completely out of the control of the Scottish Government?

10:30

Ivan McKee: We continue to press the UK Government to change the rules, but, obviously, it is a reserved area. We can do what we have done with regard to PPE and other things, which I mentioned earlier. We continue to do a lot of work through our supply chain development programmes and other activities, to look for opportunities to manufacture more products in Scotland in order to create economic opportunities here and build resilience. That is the primary lever that we have to tackle the issue.

Of course, clearly, there are many things that we cannot manufacture here competitively. We can manufacture many things in Scotland, but not everything. Increasing manufacturing here is part of the answer, but it is not the whole answer.

Colin Beattie: Is there a way in which the Scottish Government can build more resilience into the Scottish end of the supply chain in order to mitigate the impact of Brexit? I realise that, as you said, there is a limit to how far we can go in that regard, but would that work, or is the issue so totally out of our control that what we can do is marginal?

Ivan McKee: What we can do is what we are doing. As I said, it is not the whole answer. What we can do is marginal in the sense that it will allow us to tackle some of the issues, but not the key barriers to international trade, which is hugely unhelpful. As I said, the work that we are doing to support more manufacturing in Scotland is part of the solution, but—as you rightly said—Brexit restrictions make supply chains difficult for businesses, consumers and the Scottish economy.

Colin Beattie: When you are endeavouring to put in place the measures that you are talking about, I assume that the skills shortages that have apparently arisen as a result of Brexit will constrain how far we can go in encouraging manufacturing in Scotland.

Ivan McKee: The situation will vary sector by sector and opportunity by opportunity. However, in advanced engineering, life sciences and other sectors in which we have opportunities to manufacture more in Scotland, the shortage of specific skills that would normally have come from the international talent pool is a key issue. A significant similar brake has been put on businesses in other parts of the economy, including agriculture, food processing, hospitality and tourism, which rely on significant numbers of migrant workers. Those sectors are suffering as a

result of Brexit and the restriction on labour migration.

The Convener: I will bring in Alexander Burnett, who I think will follow up on some of those issues. I share the minister's concerns about the situation that we are in since leaving the EU, but it is the new reality, and the Scottish economy must respond to it. Therefore, we must focus on skills and having a sustainable and resilient supply chain.

Alexander Burnett (Aberdeenshire West) (Con): I have three questions on labour supply and investment to attract labour.

The Finance and Public Administration Committee, which is chaired by your colleague Kenny Gibson, says that the evidence of Scotland's economic underperformance is "deeply worrying". We have higher rates of economic inactivity than exist elsewhere in the UK, and there are problems across all areas around the skills gap, with lifestyle choices and lower life expectancy leading to earlier retirement. What are you doing specifically to reduce economic inactivity and increase our domestic labour supply?

Ivan McKee: There is a gap, but the gap is not as big as you are making out. From memory, in terms of labour market inactivity, we are at 22 per cent and the rest of the UK is at 21 per cent. There are differences, but they are not hugely significant.

In response to an earlier question, I focused on understanding the make-up of the 750,000 people who are not in the labour market. Some of them are in that situation for good reasons: they are in education, they suffer from ill health or they are taking care of their families. However, we need to understand what we can do at the margins to reduce that total number. Obviously, if even 100,000 of those people—to pick a number at random—were back in the labour market, that would be helpful in the situation in which we find ourselves.

For every part of that cohort, there will be a different answer. For parents who are returning to work after having children, childcare provision will be important, so the increase in free childcare hours is hugely important. In rural areas and in some parts of cities, there are issues around transport and access to economic opportunities. Again, the Government is hugely focused on addressing those. For people who have ill health, there might be opportunities for some to access training and support that will enable them to become part of the labour market, which is great for them and for the economy.

One of the interesting differences between Scotland and the rest of the UK is in the number of students in the labour market inactivity pool. We

are exploring that further so that we can understand the issues. However, that is a double-edged sword, because we have to ask whether we want students in the labour market when they should be more focused on their studies. There is a balance to be struck.

We are increasingly deeply involved in understanding those issues and driving forward programmes to address each of them separately, because the answers for each cohort are different.

Alexander Burnett: The Finance and Public Administration Committee report also talks about longer-term low productivity and poor business investment. The latest blow to the development of a manufacturing supply chain is the opposition to civil nuclear energy, with the Rolls-Royce SMR Ltd consortium looking everywhere except Scotland for a site for its £200 million factory. Do you recognise that your Government's policies—or "levers", to use your word—are a problem when it comes to attracting inward migration to reduce labour shortages?

Ivan McKee: Do you mean inward migration or inward investment?

Alexander Burnett: Both. I think that labour would follow investment. If companies were investing—

Ivan McKee: I was talking about that before, and I have already said that significantly more people are attracted to Scotland from the rest of the UK than leave Scotland to go and live in the rest of the UK, so we have a positive migration level in that respect. On attractiveness, by that measure we can see that Scotland is significantly more attractive than the rest of the UK, and the gap is widening.

On inward investment, likewise; Scotland has, for the past seven years in a row, consistently outperformed every part of the UK apart from London. When it comes to research and development funding, the latest data also shows that Scotland outperforms London.

Furthermore, the data for last year—the year of Covid—shows that Scotland's inward investment increased by 5 per cent while the UK's inward investment was at minus 12 per cent and the EU's was at minus 13 per cent. While inward investment across Europe was going down, it was going up in Scotland. Scotland is an attractive place for inward investment. Our inward investment plan is hugely focused on increasing Scotland's attractiveness to inward investors. We have more work to do in that regard, but we are in a much better place than many parts of the rest of the UK, when it comes to attracting inward investment.

Alexander Burnett: I hope that we all want continued inward migration from the rest of the UK.

You mentioned

“placing ideology above the needs of business.”

However, we now have a First Minister who is looking to introduce legislation on another referendum. After all the lessons that have been learned over the past eight years about referendums’ effects on the economy, in what parallel universe will the uncertainty that a referendum will bring attract people and investment, particularly when the rest of the world is focused on post-Covid recovery?

Ivan McKee: The rest of the world is focused on a lot of things. This is about exploiting the opportunities that exist; Scotland is extremely well placed to take advantage of opportunities in many of the sectors of the future, including renewable energy, life sciences, the space sector, financial technology and financial services, manufacturing, and food and drink innovation.

As has already been highlighted in answers to questions, what is stopping Scotland is our not having access to the large EU market—exports and imports—because of the restrictions that are caused by Brexit, and our not having access to labour, through the ability to tailor immigration programs, to fuel our growth.

More broadly, I note that Scotland does not have control over the full suite of welfare levers, which would allow us to tailor the system to support people in order to tackle poverty and help to smooth their transition back into work. In many cases, the UK welfare system militates against that. I could go on and on.

The things that hold Scotland back include our not having those levers and not being a normal independent country that can take its own decisions, despite having a suite of advantages, such as that it has the most highly educated population at tertiary level in Europe. Despite all those advantages, Scotland is not able to maximise opportunities and is not as well off as Denmark, Norway, Sweden, Finland, Switzerland or other normal independent countries of Scotland’s size. Those countries have far fewer opportunities than we do, but they do much better than us. Scotland is held back because of the union; the sooner we are out of it, the better.

The Convener: Thank you. I remind members that the subject of the session is supply chains, which is the inquiry that we have been working on for the past few months. The minister is here to answer questions on that. I appreciate that members might want to extend the debate to other

areas, but we have limited time, so I ask you to focus on the issue at hand.

Colin Smyth (South Scotland) (Lab): The committee has heard a number of concerns about the current procurement regime, including claims that it is very focused on price, does not properly measure the environmental benefit of using local products, and the use of local firms is largely ignored in any scoring process. There is concern that the procurement process is about encouraging local firms rather than making it a requirement in contracts to use those firms, and that the process does not encourage the use of alternative products or materials that could encourage the growth of a Scottish supply chain.

Does the minister recognise those concerns from businesses, and has any consideration being given to fully reforming the procurement process to better prioritise local companies?

Ivan McKee: That is a leading question. We are on a journey and significant progress has been made in a number of areas, which I will talk through. However, I recognise that there is more that we can do. I am relentless in my engagement with procurement officials in the Scottish Government and more widely across the public sector, and I am looking for every opportunity to move forward in all those areas.

The sustainable procurement requirements in legislation are important. They focus on making sure that there are community benefits and local aspects to procurement requirements. The situation is far from being that we will only go on price; a whole range of factors are considered. In fact, choosing a provider based only on price is not an option. In public sector procurement, you need to look at a wider range of factors including local issues, sustainability, small and medium-sized enterprises and other factors as part of the decision-making process. We have moved a long way from choosing only on price, but there is more to do.

You also need to remember that we do not have free rein in that area, for good reasons. We are part of the World Trade Organization’s agreement on Government procurement. When Scottish businesses try to export, they expect the deck not to be stacked against them in international markets and there are requirements for that. Likewise, we have to have an open, fair and transparent process for competition in procurement in Scotland. What we can do is set the criteria as best we can within the international rules that are available to support that.

Looking at the results, the percentage of public sector business that is won by SMEs in Scotland is far higher than that in the rest of the UK, and it is way in excess of the targets that are set by the

European Union. SMEs in Scotland win a higher percentage of public sector contracts than their share of turnover in the whole economy. That is positive and we have managed to deliver on that in recent years. We keep a focus on that because we recognise how important it is.

10:45

The other aspect concerns the innovation side. We have done a lot of good work there, although we have a bit more to do. That involves ensuring that Scottish businesses that come forward with innovative products, they can present them, and they can get a market for them in the public sector in Scotland, with £13 billion of procurement spend being leveraged in to the health sector, digital solutions and elsewhere.

The work of CivTech has been phenomenal, and we have significantly upscaled its capacity. CivTech is an international exemplar of how to do things and is leading a lot of international work and showing people how to do this stuff. It has done that primarily in the areas of digital and tech, but it is expanding its capability much more broadly.

SHIP, the Scottish health and industry partnership group, is exploring innovative solutions from Scottish businesses, normally SMEs, for how we give market opportunities in the NHS that are more flexible in their purchasing requirements and specifications, so that something that is innovative and does not exactly fit our purchasing requirements still has a route to market.

The supply chain development programmes are focused on where we have significant public sector spend, where we can build strong indigenous supply chains and how we put both of those together and make things happen. It is not a matter of flicking a switch and stuff just happening; there is a huge amount of detailed work involving different sectors, businesses and opportunities, navigating the rules and ensuring that we are focused on delivering what we can.

We are making progress, but there is, absolutely, more to do, and I am always delighted to talk to businesses that have innovative products and services to understand how, in working with them, we can give them a foothold in Scottish public sector procurement.

Colin Smyth: I was not asking a leading question; I was outlining the concerns that the committee has heard.

Ivan McKee: Absolutely—I accept that. As I have said, I am hugely engaged and I am very keen to talk to businesses to see how we can help them further.

Colin Smyth: A clear view came across in evidence that the extent to which supply chains

are covered by the process of determining a contract does not go far enough. In fact, recent changes to the process have driven many of the problems. If a local council is building a new school, for instance, that is now a very centralised process. When I was a councillor, we awarded a contract directly as a council. In Dumfries and Galloway now, that goes through the hub south-west process. Notwithstanding all the accountability issues that that causes when something goes wrong, it means that there is a real emphasis on economies of scale and large contracts. The use of local supply chains often relies on the big contractor to subcontract the work at their discretion. Surely the process that we have been driving in recent years has caused an increase in large contracts—driven, I suppose, by the fact that budgets to councils have been cut. Surely big contracts driven by price are still a big part of the process.

Ivan McKee: The whole construction sector works like that, so I do not think that there is anything specifically different about public sector procurement in that regard. Clearly, we must understand what the market price is when spending public money. That must be done as efficiently as possible. However, there are some very practical things that we can do and that we do do to break up large contracts into smaller buckets, and we should look for opportunities to do that. I am very supportive of allowing smaller businesses to bid for and win smaller pieces of work, rather than facing into bigger contracts that make it difficult for them.

There are other things that we can do and that we are very supportive of, including smaller businesses working together to bid for some of the larger contracts that cannot be broken up into smaller chunks.

I think that we agree on where we want to get to; it is a question of working through the details. It is not that we are saying price, price, price—far from it. As I have said, we are moving away from that, and I am keen to work with businesses to look for opportunities to move further in that direction.

Colin Smyth: Do you accept, though, that there has been an increase in large contracts, with a small number of big construction firms winning all those contracts? Is there an active piece of work on that? I am not clear about it from what you say, apart from there being on-going work. Is there now an active piece of work about, say, adapting the lotting system, with a real focus on ensuring that smaller local suppliers are not driven out, and taking into account the environmental impact when it comes to the criteria?

I always joke that the fastest-growing business in Dumfries is the guy who sells the bacon rolls on

the outskirts of the town, because he serves all the white vans that travel from Glasgow to Dumfries every day to work. There is clearly an environmental cost in the big central belt businesses carrying out contracts elsewhere. Surely environmental impact and the focus on local businesses should make up a bigger proportion of the criteria for awarding contracts, and you should be breaking up the lotting system a lot more in order to focus on smaller contracts.

Ivan McKee: On the question whether there has been a shift towards more of this stuff happening with larger contractors, I do not have the evidence to hand to confirm whether that is accurate. However, if you look over the whole piece, you will see that, as I said earlier, the proportion of contracts going to SMEs in Scotland is far in excess of what it is in the rest of the UK or, indeed, the European targets in that respect, and SMEs get a higher percentage of their work through public sector procurement than larger businesses. That is the reality of the situation with regard to the numbers; from memory, I think that the figure is 46.5 or 47 per cent.

There will always be anecdotal stuff about this or that happening with a particular contract, and I am always keen to hear about those specific examples, because it helps to inform the overall picture. However, it is clear from the data that we in Scotland do much more of our procurement through SMEs than elsewhere, and that is increasingly the case.

The requirements that are in place ensure that purchasing is not done on price alone. A range of other factors such as local benefits, equality and sustainability is factored in. We can debate whether the balance is right, but this is not a black and white issue. Those factors are already in play and are part of the criteria.

As for the size of the contracts, we are, as I have said, looking for every opportunity to break the lots into smaller buckets to allow smaller businesses to bid for them. That is what we have been and are doing proactively. Sustainable procurement legislation is in place and has been for a number of years, and the annual report that comes out is very transparent about what we are doing, how we are doing it, whom we are working with and what is happening right across the public sector on this. The data are moving in the right direction, given the proportion of SMEs that are winning those contracts.

We have the intent, the actions and the results. Is there more that we can do? Absolutely. Are there anecdotal examples of things that can be improved? Yes, and there always will be. However, we are keen to address all that so that we continue to move in the right direction.

Colin Smyth: As a final point, you say that this is covered in the criteria, but one of the biggest criticisms of the ScotWind leasing process was that having a local supply chain was not one of the criteria. Companies had to have development plans, which we will see at some point, but the big criticism from trade unions and many others was that having a local supply chain was not part of the scoring process in awarding these leases.

Ivan McKee: As you will be aware, there are international rules around this stuff, such as the WTO's bidding rules in the GPA. We cannot just make things up. We have done as much as we can within those rules to move things forward. We made a huge commitment with the supply chain development statements to ensure that the bidders that came forward made it very clear how they would use supply chains, and, as I have said and as I am sure Colin Smyth is aware, we have pushed the scoring criteria to the limit with regard to what we are able to do within international rules.

The Convener: Thank you. We need to make some progress, so I call Michelle Thomson, to be followed by Fiona Hyslop.

Michelle Thomson (Falkirk East) (SNP): I also want to pick up on the issue of procurement, but with regard to the Finance and Public Administration Committee report that was mentioned, I should say that I am a member of that committee and I note that the Scottish Fiscal Commission expects the Scottish labour participation rate to decline by around 0.2 percentage points per year relative to the rest of the UK. As a result, the figure is even less than you suggested earlier, minister.

I have a couple of questions about procurement. Some businesses have asked about the possibility of more pipeline visibility. I think that you mentioned that many businesses will create a component product as an offering in order to make a bid, and that sort of approach would give them time to do so.

My second question is around the use of mandation to help to develop supply chains and further target net zero. We have seen comments about that from the Construction Scotland Innovation Centre.

Ivan McKee: The pipeline aspect is hugely important in construction, and the sector has made great progress with it. I chair the construction leadership forum, and it has been a huge area of focus there. The Scottish Futures Trust has also been working hard on the matter with the Government. We have the pipeline in place that allows public sector organisations to put their future plans for construction work on the pipeline tool, and everybody can have a look to see what is coming up.

Stability of demand is very important in the construction sector. It allows contractors to know what work is there and plan accordingly, which means that the whole sector is not being moved from feast to famine, year on year, in terms of the work. The tool has come online in the past few months. It has been really effective and is making a huge difference. We are also working with leadership groups in other industries, which are looking at and learning from what the construction sector has done in order to do something similar. That is a great example of the initiatives that are being taken.

Was your other point around sustainability?

Michelle Thomson: Yes. You have accurately depicted the wider environment in regard to rules—you mentioned the WTO and so on—but I am asking about the general concept of mandation to effect change in the market, including with regard to the net zero aspect.

Ivan McKee: We can put in place requirements as best we can within the rules that sustainability, net zero and carbon footprint aspects are factored in, and we look to do so where possible. Increasingly, that is an area of focus, because it encourages local production and innovation. The construction sector is a prime example of that. The Construction Scotland Innovation Centre had worked on putting forward innovative solutions to the net zero-carbon challenges, and we want to use the levers of public sector procurement to facilitate such solutions as best we can.

Fiona Hyslop (Linlithgow) (SNP): I will pursue the issue a bit more. Supply chain development brings resilience as well as opportunity. With regard to the Government's activity, will you share with the committee how much of a step change you think there is across the public sector in embedding the importance of supply chain development across other departments, as well as your own? For example, will you share more about supporting the supply chain development in the NHS?

Are there also private sector opportunities, such as for heat pumps in relation to net zero? To what extent do such opportunities exist, and do you think that our agencies are geared up to keep a laser-like focus on supply chain development?

Ivan McKee: I am from a manufacturing background, so it is something on which I am hugely focused. We have done a lot of work off the back of the success of PPE manufacturing—it was great to hear that work being referenced several times in your earlier evidence sessions—to formalise the process and see where else we can apply it.

There are two parts to the issue, the first of which is procurement. I have responsibility for

procurement, and the Scottish Government is reaching out across the whole of that £13 billion spend to public sector bodies, including local government, Transport Scotland and the NHS, to stress its importance. The SHIP work in the health service is a key part of that, and, increasingly, it is drawing through opportunities.

The other side of the issue is the enterprise agencies. They are hugely seized of and focused on the importance of the supply chain, and are working hard on it. The agencies were a critical part of the work that we did on PPE.

It is about joining everything up. For example, we might see that, although the public sector is spending £100 million on specific commodities or in a particular sector, most of that money is going abroad. We need to look at which businesses in Scotland might be capable of stepping in to meet those needs, and what they need to allow them to bid for a contract.

11:00

Is it to do with having the right skills and qualifications or the right standards in place? Is it a question of capacity or investment in equipment or premises? Is it logistics? Which factors are preventing a Scottish company from bidding? The enterprise agencies and Skills Development Scotland can then wheel in and say, "We can help you with this or that." It is about getting suppliers—not just one supplier, but a series of them in a sector—to a place in which they can bid for those contracts, and creating the capacity and capability to bid for those contracts.

It is important that we join all that up in an intelligent way, and in order to do that, we have to drill down to understand where we are trying to operate. We currently have in train programmes for PPE, and we are looking at reshoring our generic medicines manufacturing. We also have programmes for heat pump manufacture; there are a couple of opportunities in that regard in Scotland, but we need more. A lot of that also involves looking at the sub-suppliers who supply the heat pump manufacturers in Scotland. How do we get more of that content in Scotland? We are also looking at electrolyzers for hydrogen, which will be a huge area in the future.

As I mentioned earlier, we are looking at timber frame construction, from forestry all the way through sawmills to manufacturing facilities and construction sites in Scotland. Along with the construction sector, we are also looking at how much of that will involve off-site manufacture and modular build.

We are currently running about seven or eight programmes, and on top of that we have all the ScotWind stuff. I should clarify that the contract for

ScotWind requires that, if the developer does not follow through on the supply chain development plans and use local content, there are penalties as a consequence. Contrary to what was suggested earlier, that provision has teeth.

I can talk about the subject for hours because I am passionate about it—it is hugely important and there is a huge amount going on. However, I will stop there, given the time.

Fiona Hyslop: I know that it is virtual, but I can feel your passion there. When we started our inquiry, there were real constraints on around supermarkets and food supply, so I would appreciate your take on where things currently stand in relation to the resilience of our food supply.

You also talked about carbon miles and what powers we have in Scotland to make that part of any public sector contract. Globally, there are movements in that direction, but it would have implications for food and drink in particular. I am interested in that.

I thank you for your note on the construction supply chain. Cement has come up a number of times. The enormous amount of energy that is required for cement production has implications for net zero, so innovation would be needed. The constraints in the construction supply chain during the past year are another reason why we need resilience in that regard.

Perhaps you can talk about those products: food and drink, and cement. You already mentioned timber, but if you want to add anything on that, you can do so.

Ivan McKee: There is green cement—there you go. It can be done, but it involves huge capital investment in the plant. We are talking to Scotland's only cement manufacturing plant about its plans in that regard. Green cement is very much on the radar, and it is part of the mix in construction. As I said, timber—for example, products such as MASSLAM timber solutions that can, structurally, do the job of cement—will be an important part of that.

Our approach involves looking at a whole range of different aspects. The Construction Scotland Innovation Centre in Blantyre is doing a super job in leading on that stuff, with input from Heriot-Watt University and others. It is a key strand in the Scottish construction leadership forum, so we are absolutely on that.

As I said, significant private sector investment will be required to deliver on that, but the sector understands that that is the direction of travel. We want to make it as easy as possible for people to decide to invest in green cement, for example, in Scotland as opposed to elsewhere.

Food supply is another great example. Again, a lot of different things are happening there. In conversations with local authority purchasing departments and others, it often comes down to the fact that, while there is a keenness to buy locally, the capacity is not in place to do so, because of the volumes that we are talking about. As I said, we need to get local suppliers to a position where they are able to supply at scale to meet the procurement requirements. We are doing a lot of work to join all that up as best we can.

The food miles part of that is an important criterion, so we need to think about how we address that and factor it into the procurement decisions. Also, there are moves afoot internationally on carbon accounting and other measures at EU level and elsewhere. We need to take those factors into account but, again, that will impact on the cement discussion that we just had.

A lot of things are happening internationally and we are moving forward to take advantage of them. I know that the committee took evidence from the food and drink sector, and I have officials following up on some of the examples that those witnesses gave of difficulties in accessing procurement for various reasons to determine how we learn from those examples and make our processes more effective at delivering what we all want.

Fiona Hyslop: Will you give us an assessment of where the constraints are for inward supply of food to Scotland? Bearing in mind Brexit and the Covid constraints, what is the Government's current take on that?

Ivan McKee: It is hugely concerning or, at least, unhelpful that we have those additional constraints. As you heard from wholesalers and retailers, they have worked hard to mitigate them and keep the shelves fully stocked. The sector and industry have absolutely done what they can to keep products flowing. We have worked with them on HGV driver issues and other matters to help support that.

There is a longer-term resilience issue and there is more that we can do to grow more food in Scotland to support that. Scotland is a world leader in technology such as vertical farming and exporting it at scale. That is an area of opportunity for us.

We are focused on joining all that up to build more resilience in the Scottish supply chain.

Jamie Halcro Johnston (Highlands and Islands) (Con): Good morning, minister. I have two quick questions on transport in relation to supply chains and then one on free ports.

You mentioned remote communities being at the end of supply chains. Do you recognise that good transport links are vital to supporting access

to markets for businesses in those areas and that the issues that face our ferry fleet, with ageing and increasingly unreliable vessels, are causing concerns for businesses and some of those communities? Do you also recognise that there is a fear that those problems will only get worse over the next three years?

Ivan McKee: Yes, of course. Transport connectivity is hugely important. The Government has published its strategic transport projects review to identify the steps that it is taking. It is important that all that is addressed and that we continue to improve transport links, whether road, rail or ferries. I have no doubt that the new Minister for Transport will already be all over that—*[Inaudible.]*

Jamie Halcro Johnston: Thanks very much for that answer. *[Interruption.]* I apologise for speaking over you, minister.

Ivan McKee: On you go.

The Convener: We lost the minister's connection there for a moment but, if he is finished, you can continue your questions, Jamie.

Jamie Halcro Johnston: The minister mentions a review. Improvements are needed to road infrastructure across the Highlands and Islands, which is my region, and throughout Scotland. Given the opposition of the Scottish National Party's new partners in coalition, the Greens, to new road projects and waning commitments on the A9 and the A96, how confident can businesses and communities be that the Scottish Government will progress investment in our roads infrastructure that is vital for ensuring supply routes to some of our remote areas?

Ivan McKee: That balance is hugely important, but business can rest assured that we are absolutely focused on transport connectivity. Where that requires roads to be upgraded, it will happen. The agreement with the Greens has been structured in a way that allows that to happen, taking account of the imperative to move towards reducing car miles and facilitating modal shift in transport. However, as Minister for Business, Trade, Tourism and Enterprise, I am hugely focused on ensuring that it continues to happen.

Jamie Halcro Johnston: Can you provide any update on the green port proposals? What is the timeline for designation and implementation? Will there be any further talks with the UK Government about alignment with the free ports proposals? Given that it has been reported that the UK funding will allow for only one green port, as opposed to free ports, what impact will the Scottish Government's decision to take forward the green ports model have on its ability to support the wider development of ports infrastructure?

Ivan McKee: There is quite a lot in that question. I will take the opportunity to give the committee an update. As members will know, the UK Government's free port proposals came out more than a year ago. We looked at them at that point and decided that there were some fundamental gaps that meant that we could not sign up to them. As, I am sure, the committee will appreciate, we do not want to engage in a race to the bottom on environmental standards, labour standards and pay rates. We were seized of the requirement to ensure that a net zero component was central to any such initiative.

We discussed the issue with the UK Government over the course of 2021. In September, the UK Government came back to say that under no circumstances would it allow us to make the payment of the real living wage a requirement. It was also very lukewarm on the net zero requirements. As a consequence, discussions on the issue stopped. We then signalled that we were keen to move forward with our own proposals.

I can let the committee know that the UK Government came back to us to say that it wanted to reopen discussions. Those discussions are on-going. We had hoped to conclude them before the end of the year, which is when we said that we would publish our proposals. However, given that the discussions are on-going and could be reaching an end, we have decided that it is important that we follow that process through to its conclusion before taking the next steps.

We are hopeful that we will make progress on that and that a solution will come forward. At its core, that solution will include our requirements on net zero and fair work. That will be good for Scottish businesses, Scottish workers, the Scottish economy, communities and the environment.

Jamie Halcro Johnston: Just quickly on that point, it is obvious that you cannot give us an exact timeline, but once those discussions have concluded and that information is available, will you be able to update the committee and Parliament?

Ivan McKee: Absolutely. That will happen as soon as we can do it. There are two partners involved. We have been keen to make progress on that for more than a year—we are not the ones who are taking time to get our ducks in a row. We are waiting for our partner to finalise the things that they need to finalise internally. As you will understand, they are slightly distracted by other matters at the moment.

Jamie Halcro Johnston: Thank you.

Gordon MacDonald (Edinburgh Pentlands) (SNP): I want to continue the discussion about

transport in relation to our supply chain inquiry. The strategic transport projects review that you touched on a moment ago, minister, recommends that there should be a modal shift from road freight to rail. What steps are the Scottish Government taking to support and encourage that modal shift?

Ivan McKee: Much of that will come down to the specific opportunities that present themselves. I am not closely involved in the discussions with transport colleagues who are working across this, but where opportunities present themselves we will look at where railhead facilities can be developed to allow more products to go on to rail, rather than road. Much of that will be where there are volume products and there are specific opportunities to take X hundred trucks off the road by facilitating a rail connection or something. That work is on-going.

I am directly involved in a piece of work that directly supports that on direct port shipments from Scotland. I have convened a group of port operators, airports and others to understand what volume of traffic leaves Scotland by truck for ports in the south of England and how we can address opportunities to get more of that on ships leaving Scottish ports. There are commercial realities there and it is about understanding those and what other things we can do to move the locus of calculation to make it easier for people to use Scottish ports. I hope that that work will yield some significant results.

Gordon MacDonald: I was going to ask you about direct ferry routes from Scotland. As you will be aware, witnesses have called for a direct ferry route from Scotland, similar to the one that we had previously from Rosyth to Zeebrugge. I notice that Irish hauliers have reduced the number of HGV movements using the Ireland to UK land bridge by 214,000, and that the number of direct ferry routes to Europe has increased, from less than a dozen before Brexit, to 44. Given that it was previously thought that routes from Ireland to the continent were not financially viable, has the situation with six-hour delays at Dover and 7-mile tailbacks on the M20 refocused Scottish exporters' minds on direct ferry routes from Scotland?

11:15

Ivan McKee: It is a situation—I would perhaps not call it market failure—with different players who are all, rightly, looking at things from their own perspectives. When we consider the whole system, however, with everybody in the room talking about the different moving parts, we can broker solutions that would otherwise not happen. If someone is looking to move goods, they cannot mess about with them and take risks, as they could lose their market. Cost is an issue, reliability is an issue and frequency is an issue. What

happens if something goes wrong is an issue. If someone can get goods on a truck to Dover, if there is a ferry every half an hour or whatever and if they can get another truck when they need one, they have flexibility—notwithstanding the capacity constraints that we have talked about. At a Scottish port, there might be one ferry once a week, and if it does not go and people have to wait another week, they have a problem. The issues are multifaceted; it is not just about cost.

We are considering different commodities and routes where it makes sense to consider what the cost gap is, whether it is bridgeable and whether there is resilience that we can build in. If we could move forward a couple of notches on all those things, we could perhaps be in a position where operators and businesses can consider being part of that, consolidating loads among different producers and so on.

All of that is on the table, and hopefully we will make some progress there. In the environment that we are in, the Irish example gives fresh impetus.

Gordon MacDonald: Getting back to rail, I accept that you are not the transport minister, but we have recently seen the UK Government reduce the extent of the route for high speed 2. It seems to have become nothing more than a London to Birmingham shuttle. Given that the justification for HS2 was to free up capacity on the existing network for local trains and more freight, is there an impact on Scottish exporters who were looking to use rail freight? I highlight the example of the large supermarket that has introduced trains carrying fresh produce from Spain to Scotland, which has helped with supply chain resilience. What impact do you think the restrictions on the HS2 route have had on the ability to move freight on to rail?

Ivan McKee: You have characterised the situation very well. On the timescales, HS2 is only just getting started, so it is not impacting things today, but does it have an impact on strategic thinking for the future? Yes, of course it does. High-speed rail is hugely important, and there are international examples where it is well embedded in transport infrastructure. Yes, we should be in a position to exploit and develop it more.

Speed is an issue, but capacity is probably more of an issue. The line was going to help in that regard. If it was going to be done seriously, the work would have started from both ends at once. It would have started from Scotland and London and met in the middle. Clearly, however, that is not what it is all about; it is about getting commuters into London, rather than considering the whole country.

That is an issue, but it is more of a long-term issue, which affects strategic thinking. In the immediate term, there are other things that we can do and that we are doing to address the issue.

The Convener: Thank you for your time this morning, minister. I should say that the inquiry arose from concerns that we were hearing from the construction and food and drink sectors about certain pressures, particularly before Christmas. There seems to be less media reporting of concerns about shortages, but that might be because other things are occupying the media at the moment. At the very end of the note on the construction supply chain that you sent the committee, you say:

“The general expectation in the marketplace is that the situation will now begin to settle at least in terms of supply”.

I realise that that applies to construction, but are you seeing the same thing across the Scottish economy? I suppose that it relates more to commodities than to people and places, but we are looking for some assurance that, although things might be starting to settle after the pressure that we saw before Christmas, this is still a priority for Government and that, no matter whether we are having to deal with Brexit, the pandemic or any other factor, there is a recognition that we have an opportunity to change the way in which we do business in Scotland. Having to do so might be partly a result of the pressures that we are experiencing, but there might also be an opportunity to look at aspects that members have highlighted such as shorter and more resilient supply chains.

I know that you have expressed as much this morning, but I wonder whether you can give us a commitment that these issues are still important to the Government and that the 10-year economic strategy will reflect and recognise the importance of looking at supply chains in future.

Ivan McKee: I can give you that commitment, convener. You are absolutely right. Resilience is important, and there are other aspects beyond what we have discussed today that are part of that broader resilience theme. I am an old manufacturing guy, so the need to do more manufacturing in Scotland is hugely close to my heart, and that kind of focus is essential in developing supply chains that support Scottish businesses and consumers where we can do so. That is hugely important.

The reality, though, is that businesses buy where it makes sense for them to do so, and all we can do is put in place measures that make such decisions easier for them. Interestingly, when we managed to switch production of PPE to Scotland, there was concern that everything would switch back to China again as soon as the

markets opened up. However, that has not been the case, and we have managed to hold the position for a load of reasons including innovation—with, for example, Alpha Solway’s move to transparent masks opening up new markets—automation and other factors that have facilitated that. The focus is there, but this is all about making lots and lots of intelligent decisions locally in different supply chains and ensuring that they all add up to make a difference. The PPE example shows that we can do this, that we can do it quickly, that we can hold on to it and that we can use it as a platform for export if we make the right decisions in those settings.

The Convener: Minister, I thank you and your officials for your time this morning, and I briefly suspend the meeting to bring in the next set of witnesses.

11:22

Meeting suspended.

11:26

On resuming—

Subordinate Legislation

Registers of Scotland (Digital Registration, etc) Regulations 2022 [Draft]

The Convener: The committee will now take evidence on the Registers of Scotland (Digital Registration, etc) Regulations 2022. I welcome Tom Arthur, who is the Minister for Public Finance, Planning and Community Wealth. He is joined by Graham Fisher, who is deputy director of the Scottish Government legal directorate, and Harry Murray, who is policy lead at Registers of Scotland.

I invite the minister to make a short opening statement.

The Minister for Public Finance, Planning and Community Wealth (Tom Arthur): Thank you, convener. I am grateful for the opportunity to appear before the committee to answer questions about the instrument, which relates to land registration. As the committee will appreciate, the keeper of the registers of Scotland plays a vital role in the Scottish economy by safeguarding property rights through the registration of documents in the land register and the register of sasines.

In response to the necessary closure of Registers of Scotland's offices due to the Covid pandemic, the emergency coronavirus acts provided a basis for applications to be submitted to ROS digitally, thereby ensuring that the property market could continue to operate during the period of public health restrictions. That method of submission has proved to be enormously popular, and there has been strong stakeholder support for its retention, so the Coronavirus (Recovery and Reform) (Scotland) Bill, which was introduced yesterday and will be published today, will look to provide a continuing basis for applications to be submitted to ROS digitally.

The regulations before the committee complement the bill by making digital submission the default method of submission to ROS, subject to exceptions. In addition, the regulations open up the register of deeds in the books of council and session to electronic documents for the first time.

The regulations also make technical amendments to the Requirements of Writing (Scotland) Act 1995 to clarify and make additional provision on issues that have come to light through the increased use of electronic documents and signatures over the past two years.

The regulations give effect to proposals that were set out in the digital submission consultation that Registers of Scotland held on our behalf, which set out plans for how digital submission could be placed on a permanent statutory footing for several of the keeper's registers, and how that represented a positive step on the road to fully digital registration.

The reaction to that consultation was overwhelmingly positive, with customers and stakeholders showing strong support for the proposals. There is a clear expectation within the conveyancing profession that digital submission should become the standard method of submitting applications to ROS.

As the convener mentioned, I am joined by Harry Murray from Registers of Scotland and Graham Fisher from the Scottish Government legal directorate. Along with my officials, I would be happy to answer any questions that the committee may have.

11:30

The Convener: Thank you, minister.

Why have the regulations been drafted in such a way that they will come into force, in respect of the presumption, only if new primary legislation successfully replaces the emergency coronavirus acts? Could Harry Murray explain that?

Harry Murray (Registers of Scotland): Yes.

The Convener: Is the minister happy for Harry Murray to answer the question?

Tom Arthur: I am happy for Harry to respond to your question.

Harry Murray: The bill and its interaction with the secondary legislation is ultimately a matter for Parliament, but in relation to the specific technicalities of how they interact, Graham Fisher from the Scottish Government legal directorate is better positioned to respond.

The Convener: Mr Fisher, would you like to respond? I want to understand why the regulations come into force only if the new primary legislation successfully replaces the emergency acts. Is it expected that the bill will replace them? I am wondering why the Scottish Parliament information centre paper says that that will happen only "if" the bill replaces those pieces of legislation.

Graham Fisher (Scottish Government): I am happy to respond, convener. It is for Parliament to consider the bill's provisions. I appreciate that those were only introduced yesterday and published today, as the minister said. In effect, the Coronavirus (Recovery and Reform) (Scotland) Bill will replace the temporary provisions that were in place to allow copies of traditional paper deeds

that have been signed to be registered electronically at the Registers of Scotland. It will replace, in pretty much identical terms, the existing temporary provisions in the Coronavirus (Scotland) Act 2020 that allow for digital submission.

Because the changes that are being made in regulations 2 and 3 are intended to be in effect at the same time as the permanent provisions that will be introduced by the bill, it was thought appropriate to make the procedural changes that the regulations make alongside the change in the bill. As they will have effect at the same time, it makes sense to have both sets of measures in place at the same time.

The only reason for the changes in the regulations being made alongside the change in the bill is so that they can come into effect at the same time. That is the neatest approach for the default provisions in the regulations, which, as the minister mentioned, are supported by the conveyancing profession. I hope that that answers the question; I would be happy to answer any further questions if it does not make sense.

If members are interested, section 24 of the Coronavirus (Recovery and Reform) (Scotland) Bill includes the provisions that will replace the temporary provisions in the current coronavirus acts.

Michelle Thomson: Good morning, minister. I am happy to see that progress is being made. One of the good aspects of Covid is that it has accelerated something that was intended to happen anyway.

I have a general question. How confident are you that the organisational capacity and capability from an information technology perspective is in place, with particular reference to safety and security? You may have already tested that. We are talking about extremely important documents that go back a long way, and hacking is a concern for any organisation.

Tom Arthur: I thank Michelle Thomson for her support for the measures and for recognising that this is an opportunity to take another step towards a fully digital service. Before I ask Harry Murray to come in, I make the observation that the regulations put on a permanent footing what has been in place for the past couple of years with the digital submission service.

As you will be aware from the response to the consultation, which was carried out from December 2020 to February 2021, there has been overwhelming stakeholder support. I encourage members who have an interest in the application of digital technology to public services to read the responses to the consultation. It is encouraging and heartening to see how overwhelming the

support has been on a range of issues, including efficiency, ease of use and savings on postal costs and paper, which, I am sure, we would all welcome, given our environmental commitments.

With regard to your question seeking assurance on the capacity to deliver in the future, I ask Harry Murray to expand on the points that I have made.

The Convener: Please go ahead, Mr Murray.

Harry Murray: I will build on what the minister said. The key point to make is that the development and implementation costs have been identified and the work to provide for the regulations has already been done. That work was carried out at the outset of the pandemic so that we could make use of the provisions that were introduced in the temporary legislation.

With regard to security and fraud, it is important to note that the digital submission service is open only to existing Registers of Scotland e-service account holders, the majority of whom are solicitors. Those users or applicants are under a statutory duty of care in the underpinning legislation, the Land Registration etc (Scotland) Act 2012. In addition, solicitors operate under their own professional and regulatory standards.

In the two years for which we have been offering the services in question, no fraud has been attributable to the digital submission service. We are extremely confident, as are users, that the digital platform does not expose any risk and that there are no issues. This is now the business-as-usual operating model. In essence, we are not introducing anything new.

Alexander Burnett: I note my entry in the register of members' interests in relation to use of the land registry. I welcome the progress on digitisation and the development of electronic formats.

I invite the minister to comment on the position of people who will only be capable of submitting written paperwork to the register. We have a huge issue, particularly in rural areas, with a digital divide, because of people's internet connections and so on. Can the minister guarantee that people will still be able to submit entries non-electronically and explain how they will be able to do that? For people who submit non-electronically, how will that be recorded and reported on to make sure that there is no discrimination in the quality or speed of service that they receive, compared with those who submit digitally?

Tom Arthur: I thank Mr Burnett for his important questions. As he will be aware, while the system moves to a digital-by-default approach, there are exemptions in the regulations. For example, if the Registers of Scotland IT system had been down for a period of more than 48 hours, paper

applications would be possible. Similarly, in relation to the important point that Mr Burnett raises, for those individuals who do not have access to a computer or an internet connection, the option of paper submission will still be available. In addition, the keeper has a discretionary power to allow for paper submissions in exceptional circumstances.

Perhaps Harry Murray could expand on some of those points.

Harry Murray: Again, I will build on what the minister said. As I explained previously, the digital submission service is limited to existing professional users, who are primarily members of the legal conveyancing community. However, we will continue to provide for the exceptions that apply. A key exception would be for a citizen who was dealing with their own conveyancing activity. They would simply be able to submit a traditional paper-based application in the way that they previously would have done. The way in which the land registration provisions work means that no preference is afforded to a digital application—the date of registration will be the date of registration, so there is no real change there.

I think that there was also a query about island communities. The digital provisions lend themselves very well to that situation. In effect, we have a system that introduces a level playing field so that remote or island communities are no longer disproportionately impacted by the vagaries of postal, courier or ferry services.

We feel that the new system introduces a level playing field for all manner of people who interact with our services.

Alexander Burnett: Thank you. To come back to my second question, what analysis will we be able to see of the reporting of the volume of electronic and written submissions? I appreciate that there will be no discrimination in terms of dates, but will we be able to see information on volumes and postcodes?

Harry Murray: The keeper frequently provides statistical analysis from the full range of work that she does. If the committee was interested in having periodic feedback on that, I cannot see there being any difficulties with that. The keeper could potentially provide that as part of her quarterly updates to the committee, for example. I do not see any difficulty with us being able to provide such data, which I think will simply confirm that there is no disadvantage to non-digital submissions.

Alexander Burnett: I hope that the keeper will note that conversation.

Jamie Halcro Johnston: One of my questions has been covered by the answers to Alex

Burnett's questions. As an islander, I am delighted that Harry Murray says that any disadvantages that island communities might have faced have been removed.

I have a quick question for the minister. There were 223 respondents and a 97 per cent approval rating for what is proposed, which is something that politicians can only dream of. Can you outline any issues or concerns that might have been raised about the changes?

Tom Arthur: I agree entirely that there was overwhelming, near-unanimous support. A small proportion of respondents—the figure was less than 10 per cent—raised questions, primarily with regard to a digital-by-default approach and the potential consequence that could arise from that of people being excluded. The previous line of questioning shows how that issue has been addressed through the building in of safeguards.

A limited number of concerns were raised around security of personal data but, again, as has been touched on, that issue has been addressed, in the sense that no new personal data is being collected through this process. As we have seen over the past two years, the digital submission service is a robust and resilient service, which has served us well throughout the pandemic. Indeed, as well as providing us with a more efficient service, it will also provide us with a more resilient service, should any other unforeseen events—I hope that this will not be the case—require the interventions that we have been living with over the past two years.

Harry Murray may wish to add something from an ROS perspective.

Harry Murray: Like the minister, I have never been involved in any form of public consultation that has had such striking support. We were almost having to dig to find anything negative. This is slightly anecdotal, but when we looked at the responses of the sole respondent who objected to placing the digital submission provisions on a permanent footing, the rest of their responses tended to suggest that they had made an error in giving that answer.

It is also worth pointing out the very small number of people who gave what could be classed as negative responses. There was nothing in the way of any positive contribution or any specific comments as to why they were not in favour of the proposal, so it was really difficult to tease anything out of that.

11:45

The only other thing to add is that the managing of personal data and the maintaining of public records is quintessentially the work of the keeper.

She has enormous experience in that, so we are very confident that we have robust processes in place. We consistently do impact assessments and review our processes to make sure that we maintain our records to the highest possible standard. We are extremely confident that we do not expose anyone to any risks.

Jamie Halcro Johnston: Thank you.

The Convener: If there are no further questions from members, we move to agenda item 4, which is the formal debate on the motion. I remind the committee that only members and the minister may take part in the formal debate.

I invite the minister to speak, if there is anything further that he would like to say, and to move motion S6M-02599.

Motion moved,

That the Economy and Fair Work Committee recommends that the Registers of Scotland (Digital Registration, etc.) Regulations 2022 [draft] be approved.—
[Tom Arthur]

The Convener: No members have indicated that they wish to speak in the debate on the motion. I think that members were content with the question-and-answer session.

Motion agreed to.

The Convener: I invite the committee to agree that the clerk and I will produce a short factual report on the committee's decision and arrange to have it published.

Members *indicated agreement.*

The Convener: I thank the minister and his officials for joining us today. We now move into private session for the remaining items on the agenda. I apologise—I was being too hasty. We have another Scottish statutory instrument to consider first.

Consumer Scotland (Designated Regulators) Regulations 2021 (SSI 2021/465)

The Convener: We move to agenda item 5, which is consideration of a further SSI. The committee is invited to note SSI 2021/465. The purpose of the instrument is to set out the authorities, as per section 9(6) of the Consumer Scotland Act 2020, who are designated as regulators from whom Consumer Scotland can require information related to its functions. I invite members to note the instrument.

Members *indicated agreement.*

The Convener: That concludes the public part of the meeting. We now move into private session.

11:47

Meeting continued in private until 12:31.

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