



OFFICIAL REPORT  
AITHISG OIFIGEIL

# COVID-19 Recovery Committee

Thursday 3 November 2022

Session 6



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**COVID-19 RECOVERY COMMITTEE**

**0<sup>th</sup> Meeting 2022, Session 6**

**CONVENER**

\*Siobhian Brown (Ayr) (SNP)

**DEPUTY CONVENER**

\*Murdo Fraser (Mid Scotland and Fife) (Con)

**COMMITTEE MEMBERS**

\*Jim Fairlie (Perthshire South and Kinross-shire) (SNP)

\*John Mason (Glasgow Shettleston) (SNP)

\*Alex Rowley (Mid Scotland and Fife) (Lab)

\*Brian Whittle (South Scotland) (Con)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Professor Steve Fothergill (Sheffield Hallam University and Industrial Communities Alliance)

David Freeman (Office for National Statistics)

Louise Murphy (Resolution Foundation)

Dr Hannah Randolph (Fraser of Allander Institute)

Tony Wilson (Institute for Employment Studies)

**CLERK TO THE COMMITTEE**

Sigrid Robinson

**LOCATION**

Committee Room 6



# Scottish Parliament

## COVID-19 Recovery Committee

Thursday 3 November 2022

*[The Convener opened the meeting at 09:10]*

### Road to Recovery Inquiry

**The Convener (Siobhian Brown):** Welcome to the 23rd meeting in 2022 of the COVID-19 Recovery Committee. Today we begin our inquiry on the impact of the pandemic on the Scottish labour market.

I welcome our witnesses to the meeting. Dr Hannah Randolph is an economic and policy analyst at the Fraser of Allander Institute. Joining us in person is Professor Steve Fothergill, who is from the centre for regional economic and social research at Sheffield Hallam University and the national director of the Industrial Communities Alliance. Tony Wilson is director of the Institute for Employment Studies. David Freeman is the head of labour market and households at the Office for National Statistics. Louise Murphy is an economist for the Resolution Foundation.

Thank you for giving us your time this morning and for your written submissions. We estimate that the session will run up to 10:30. Each member should have approximately 14 minutes to speak to the panel and ask their question.

I ask those who are present to please catch my eye if they would like to come in at any point. If the witnesses who are attending remotely would like to respond to an issue that is being discussed, please type "R" in the chat box and we will bring you in. I am keen to ensure that everyone gets an opportunity to speak. I apologise in advance: if time runs away from us too much, I might have to interrupt members or witnesses in the interests of brevity.

I invite the witnesses to introduce themselves briefly.

**Professor Steve Fothergill (Sheffield Hallam University and Industrial Communities Alliance):** I am from Sheffield Hallam University. Over the years, I have done a great deal of research on issues to do with incapacity benefit and economic inactivity.

**Dr Hannah Randolph (Fraser of Allander Institute):** I am a research associate at the Fraser of Allander Institute for the University of Strathclyde. I research the labour market and poverty.

**Tony Wilson (Institute for Employment Studies):** I am a director at the Institute for Employment Studies. We deliver research analysis and consulting on things to do with the labour market, employment, education and skills. We have had a particular interest on the impact of the pandemic on the labour market.

**David Freeman (Office for National Statistics):** I head up the labour market and households team at the Office for National Statistics. The team produces the monthly labour market statistics for the United Kingdom, as well as annual surveys on employment and earnings.

**Louise Murphy (Resolution Foundation):** I am an economist at the Resolution Foundation. We research the labour market and, more widely, living standards for people on low to middle incomes in the UK.

**The Convener:** Thank you, everyone, and welcome. I will begin by asking the first question.

As I said, I thank the witnesses for their written submissions. There is a lot of evidence for us to look through in the papers. A common theme throughout the submissions is that an in-depth analysis of the impact of the pandemic on the Scottish labour market specifically has been difficult, given the lack of available Scotland-specific data. What could the Scottish Government do to improve the amount of available data on the Scottish labour market specifically?

**Professor Fothergill:** Good morning, colleagues. The data that is out there is a lot better than you indicate. There are two big data sets that can be brought to bear on the issue. One is the labour force survey, which I think most of the researchers in the field tend to gravitate towards—I know that Tony Wilson from the Institute for Employment Studies has used it extensively, and continues to use it. It is based on a sample survey of households. In any sample survey, the smaller the geographical area that you want to look at, the iffier the data. At a national Scottish level, it is pretty good, but for local areas in Scotland, it becomes more problematic. That is only one of the data sets that we can look at.

09:15

In the context of long-term sickness, the other great set of data—which is not mined so much, but which we use—is the benefit data held by the Department for Work and Pensions, which is on a website called Stat-Xplore. That data is phenomenally good because it is based on administrative data and you can actually count the number of people who are out of work and are on employment and support allowance or universal credit. You can count those numbers accurately, not only for Scotland but for individual local

authorities within Scotland, and can drill down and look at issues such as age and gender. There is a mixed picture, but there is good data out there.

**The Convener:** Is there anything that could be improved?

**Professor Fothergill:** Short of a much larger sample size for the labour force survey, possibly not.

I think that we can get a good handle on the issues with the data that is out there, but it requires looking beyond the labour force survey. Some of the other witnesses may have subtly different views, but the LFS is not the be-all and end-all of data.

**The Convener:** That is helpful. I will bring in Tony Wilson.

**Tony Wilson:** David Freeman may want to say more about the labour force survey and the transformation that the ONS is leading on labour market statistics, which I think will be hugely beneficial in understanding what is going on with the survey data.

I have a couple of quick points about what Steve Fothergill said about the administrative data. We could press the Department for Work and Pensions to better disaggregate what is happening with universal credit data and, in particular, how that compares with the legacy benefits that universal credit replaced. We could also look at what is happening with flows and durations, which I will unpack in a moment.

The claimant count and measuring people who are on benefits has been significantly affected because there has been a transition of people from other, legacy, benefits to universal credit and it is hard to make comparisons over time. I completely agree with what Steve said. We could make much more use of administrative data, particularly if we are making comparisons between places. Steve has done brilliant work on that. It is a bit harder to understand what happened before and after the pandemic, because that is very much affected by the migration to universal credit. It is not impossible; the department could do better on that.

The second issue is with administrative data from HM Revenue and Customs about pay as you earn and employee numbers. That has been affected because there has been a quite significant shift from self-employment to employee jobs, which makes it hard to disaggregate the underlying true picture of employee employment. That is big data that we could make better and more use of, and it would support us in making comparisons between areas. However, my query would be how far that is a true measure, given what has happened with self-employment.

I can say something about flows and durations in relation to universal credit. The data here is terrible. The department measures only the total time that someone has been on universal credit, although people may move in and out of work and in and out of different regimes during their time on universal credit. It would be really good if the department could unpack how long people are spending out of work, how many are flowing out of and back into work, and how people move around between economic inactivity—when they are not looking for work—employment and unemployment.

**The Convener:** That is helpful. I will bring in David Freeman.

**David Freeman:** I thank the previous two witnesses for bringing up interesting issues about the data.

I can expand on the LFS. The Scottish Government funds a boost to the LFS, which means that the sample size in Scotland is bigger than it would be if we used the usual sample and the data is of slightly better quality than in other UK areas.

There is also the annual population survey, which is based on the LFS, to which we add more interviews. The data is not as timely, because it is averaged out over the year, but it allows for more granularity at the Scottish level.

Tony Wilson talked about real-time data from HMRC on pay as you earn. We have been working with HMRC to expand what is available. We can get data down as far as local authority level and have started doing cross tabulations by country and region of the UK, so we can get data on country by age and by industry.

You asked what could be done to improve the quality of data. Tony Wilson referred to the current transformation of the labour force survey. We are doing two things there. First, we are moving to an online-first version, so instead of doing face-to-face interviews, we will get people to do a survey online. If they cannot or do not want to do that, we will follow up with a telephone survey. We are also about to introduce a knock-to-nudge approach, which involves a face-to-face element.

The advantage of moving to online surveys is that we will get a much bigger initial sample. The initial sample for the transformed LFS will be not quite double the size of the current LFS, but pretty close—about 60 to 80 per cent bigger. That will give us much more detail in order to produce more granular data for places such as Scotland, regions of England, Wales and so on. We expect to bring that in at some point towards the end of next year.

**Murdo Fraser (Mid Scotland and Fife) (Con):**

Good morning to the panel. I will pursue a couple of issues, if time will permit.

First, I am interested in understanding to what extent the issues that we are seeing in the labour market, in particular with economic activity, are specific to Scotland or are in line with what is happening elsewhere, whether in other parts of the UK or internationally. Are there Scotland-specific aspects that we should be interested in? I appreciate everything that you have said about the data, and that there might be gaps there, but I am interested in hearing some views on that issue. Perhaps Dr Hannah Randolph, of the Fraser of Allander Institute, can start with some thoughts.

**Dr Randolph:** We can see differences in trends in inactivity between Scotland and the UK as a whole. We know that the UK experienced a pretty steady decline in inactivity until just prior to the pandemic, whereas in Scotland the decline is still there—[Inaudible]—inactivity started to rise after 2015-16. From that, we can see that it is likely that something else is going on in Scotland, aside from the pandemic, that is causing the inactivity. We know that during the pandemic itself, the level of inactivity overall in Scotland did not change quite as much as it did in the rest of the UK. There are certainly some longer-term trends at play; the other witnesses can speak to some of those as well.

**The Convener:** We were having a bit of difficulty with the sound there—there was a bit of interference with Dr Randolph's microphone.

**Dr Randolph:** I am sorry.

**The Convener:** That is all right.

Does Murdo Fraser want to come back in?

**Murdo Fraser:** We can move on—I put the same question to David Freeman of the ONS.

**David Freeman:** As Hannah Randolph said, prior to the pandemic, we saw slightly different trends in inactivity in Scotland and in the UK as a whole. Historically, Scotland has had slightly higher levels of inactivity than the UK. Over the pandemic, while UK inactivity rose, Scottish inactivity was relatively stable, at just above the UK level.

What struck us as interesting in comparing Scotland with the UK was the age group from which the inactivity was coming. At the start of the pandemic, a lot of young people moved into inactivity—for example, people who were working alongside their studies and were not able to do so during lockdown. That happened both in Scotland and in the UK as a whole. However, as we moved through towards the end of the pandemic, the number of inactive young people aged from 16 to

24 in Scotland actually fell, and it is now below where it was pre-pandemic.

What has been similar in both Scotland and the UK has been the increase in inactivity among people aged 50-plus. That group is driving rising levels of inactivity in both Scotland and the UK.

**Murdo Fraser:** To follow that up, is it possible to draw any comparisons internationally, or do we not have the data that would allow us to do that?

**David Freeman:** We do not have as much data around inactivity. In terms of employment, the UK is about middling among the G7 countries. On inactivity, we are probably slightly higher than some other countries. We can write to the committee later with more detail on those international comparisons.

**Murdo Fraser:** Thank you. I have another question, but before I move on, do any other members of the panel want to contribute?

**Professor Fothergill:** Could I make a very general point here, which I think is central to the argument that I want to try to get across this morning? I can see that the focus of the committee is on what has happened during the pandemic and immediately afterwards, but it is crucial to remember that the phenomenon of high levels of economic inactivity—in particular, large numbers of people out of the labour market because of long-term sickness, and mostly on benefits—is not a new phenomenon. What the pandemic has done is to tweak that phenomenon only a bit higher.

In the UK as a whole, since the beginning of the century, about 2.5 million adults of working age have been out of the labour market and on incapacity-related benefits. The number was not always at that level. If we go back further, at the end of the 1970s, only about three quarters of a million were out of the labour market and on those benefits. However, there was a major shift in the 80s and 90s, and the numbers have stayed very high since. They fell away a little—by a few hundred thousand—then came back up a couple of hundred thousand or so during the pandemic.

To try to understand that phenomenon and why people in Scotland, or indeed Britain, are out of the labour market and on sickness and disability benefits, we have really got to take the long view, and not just ask, "What has happened during the pandemic to create this phenomenon?" It is not a phenomenon of the pandemic; it is much longer established.

**Murdo Fraser:** That is a very interesting reply, because it leads me neatly on to the second question that I was going to ask, which picks up what you say in your paper about the impact on the labour market of long-term sickness and, in particular, long Covid. You suggest in your paper

that you are quite sceptical about the idea that long Covid is a major factor in an increase in economic inactivity.

**Professor Fothergill:** The big numbers in economic inactivity were there before the pandemic started. Yes, long Covid may have contributed to the modest increases that we have seen during and after the pandemic. I think that you would need to talk to one or two of the other witnesses about the specifics of long Covid—I do not pretend to be an expert on that. There is evidence from the Institute for Fiscal Studies that suggests that people who are suffering from long Covid are not so much moving into economic inactivity as still being in work and going on sick for the moment. They would not be boosting the inactivity numbers, nor indeed the numbers of those on universal credit because of limitations on ability to work and so on.

Yes, I am sceptical. You have to look to much deeper-rooted processes going on in the labour market. You also have to take account of the fact that this phenomenon of large numbers of people out of the labour market and on sickness and disability benefits is very geographically variable. It is not spread evenly everywhere; it is not spread evenly within Scotland. It is certain places, and in those places, the claimant rate can be three or four times the claimant rate in the most prosperous parts of Britain.

**Murdo Fraser:** Thank you. I am going to go to David Freeman again, because the paper from the ONS says:

“Data suggests that some of the increased inactivity could be due to long COVID.”

That suggests that you might take a slightly different view from Professor Fothergill.

**David Freeman:** I think that it is a similar view. Long Covid appears to be contributing to the increase in long-term sick but, as the professor said, a large number of people were already inactive because of long-term sickness prior to the pandemic; we just saw a bit more of an increase during the pandemic.

We did some investigations into people who had long Covid and where they were in the labour market. About 5 per cent of people who were economically inactive had long Covid. However, about 3.5 per cent of people who were unemployed had long Covid, as did 3.3 per cent of people who were employed, 2.9 per cent of people who were retired, and 1.7 per cent of students.

That seems to back up what the professor alluded to: although long Covid might be contributing to that increase in inactivity, there are people with long Covid who are doing other things in the labour market—they might still be working,

or be on sick leave, or out there looking for work that will fit around their symptoms.

09:30

**Brian Whittle (South Scotland) (Con):** Good morning, panel. On that point about the impact of long Covid on the economics of the labour market, do you agree that it is difficult for the statistics to highlight those people with long Covid who do not come into the office but who work part time from home and so are still potentially partially active? There are suggestions that 80,000-plus people live with long Covid, which presents a limitation. How do we look at the statistics and plug that point into our thinking? I will ask David Freeman, as he brought this up.

**David Freeman:** Again, we are probably slightly limited by the sample size. The way in which we find out about people’s employment prospects is through the labour force survey: we ask people a series of questions, one of which is whether they have illnesses that limit the work that they do, and we can then link that to whether they are working part time and to the industries and occupations that they are in. However, as we have said in the answer to the first question, the survey is limited by the number of people. It is a relatively small number of people compared with the total population, so we might not have enough to give us definitive answers about that.

**Louise Murphy:** Following on from what has been said, I agree that we should see long Covid as part but definitely not all of the story. One other reason to think of it in that way is that, when we consider the types of health problems that people give—we have them in the data—we are seeing not just a clustering of symptoms that relate to long Covid but increases in people noting cardiovascular and mental health problems, which is a continuation of those longer-term trends.

There is some indication that national health service waiting lists and waits for treatment are having an impact too. The ONS recently surveyed people over 50 who have left the workforce and found that, when asked, just under a fifth—18 per cent—of those people stated that they are on an NHS waiting list for treatment, which is higher than the percentage for those people who remain in work.

**Tony Wilson:** I agree with David Freeman and Louise Murphy, but I will add a couple of points. One is that there are different ways in which this could be affecting the labour market. Steve Fothergill made a point about people being in work and off sick. That is an important driver, and it might be worth considering whether people in the UK are more likely to drop out of the labour force entirely when they have a condition, and whether

they might find it harder to get back into work than in other countries.

I go back to the point about international comparisons. It is striking that the UK is one of the only developed economies in the entire world where employment is lower than it was before the pandemic. With the exception of, I think, the US, Latvia, Switzerland and Iceland, every other country has seen employment not just recover but go higher than it was before the pandemic, so if long Covid is uniquely and significantly holding back labour force growth in the UK, it is not affecting other countries to the same extent.

That might be partly because of the nature of employment protection and regulation and people dropping out of the labour force and finding it harder to get back; it is also partly and more likely to be because of other factors and other health conditions. We have seen significant growth in the number of people who have been out of work for a long time reporting long-term ill health, which I suspect means that people who had health conditions have not been able to get back to work to the extent that they would have done previously.

We have also seen significant growth in the number of people who have been out of work for relatively short periods and have health conditions. That could be people who left work—it appears more likely to be younger people, rather than older people.

There are quite a lot of things going on here in relation to how health conditions could be affecting people. We have been very focused throughout the pandemic on how health conditions may be leading to people leaving work; now is a good time to think as well about how a health condition may make it harder for people to return to work, because of a lack of support and how we protect employment.

Also, we need to think about people's understandable nervousness and concerns, if they have a chronic condition, about coming back to work when there is still a pandemic and very few protective measures are being taken in workplaces where people might be vulnerable to the virus.

**Murdo Fraser:** Thanks very much.

**Alex Rowley (Mid Scotland and Fife) (Lab):** I will begin with a question for Dr Randolph. In the Fraser of Allander Institute submission, you say:

“Unsurprisingly, there have been sectoral differences in employment trends during the pandemic.”

Should the Government be looking at taking specific action? Are there specific sectors that need more support with recovery? What has the impact been? Are our education system and our

skills system geared up to be able to cope with the changes that are taking place?

**Dr Randolph:** During the pandemic, we know that certain sectors were more impacted. We have seen a lot of that employment come back in 2022, but we have seen a shift that is part of a longer-term shift away from skilled trades, services and elementary occupations. The proportion of employment in those sectors has shrunk during the pandemic and has still not come back to the pre-pandemic level, but that is also part of a longer-term trend and it is possible that that share will never fully return to what it was prior to the pandemic, so those sectors may be areas in which upskilling or jobs training is needed for workers to transition into different sectors and different types of work.

As for whether the current state of education and skills in Scotland is geared up to make that transition, I am not sure. I could look into that and get back to you on it in writing.

**Alex Rowley:** I have the same question for Professor Fothergill. I come from a mining community—my dad was a miner—and, as I was just saying to Jim Fairlie, after the miners strike in 1984 and 1985, most of the miners who came out did not then sign up for unemployment benefit. Instead, they went on to some kind of disability benefit. The Government seemed quite happy to keep the unemployment figures down, so I get that trend that you spoke about earlier.

Are our education and training systems geared to shift to whatever the new economy looks like, or are we failing in those areas? Why is it that people with the lowest skills cannot find employment?

**Professor Fothergill:** There are several things in what you have said there.

On the point about mining areas, I know the issues very well. It was the riddle of what was happening in the mining areas that drew me and my colleagues into looking at the whole phenomenon of people dropping out of the labour market and going on disability and sickness benefits—it was called invalidity benefit initially, then incapacity benefit and so on. There was a riddle there: the pits had shut, yet unemployment was actually slightly lower than when the pits had been working, so what had happened? There was a phenomenon, in difficult places where there were no jobs to go to, of diverting people out of the labour market and on to sickness and disability benefits.

Of course, the ex-miners and ex-steelworkers who were affected by that phenomenon in the 1980s and 1990s have largely dropped out of the figures now. However, in the places where the balance in the labour market has not been fully restored, it has been the people with health

problems and disabilities in the generation beyond the miners, the steelworkers, the heavy engineering workers and so on who have found themselves marginalised.

When there is competition for jobs, apart from going for the better trained, employers go for the fit and healthy, and if you are getting on a bit in years and have health problems, you are not going to find it easy to find work, even if you look hard. After a period out of the labour market, a person could give up on even trying and resign themselves to a life on sickness and disability benefits, eking out the last few years until their state pension years.

That is the big phenomenon that has happened in Britain, and it has happened much more in some places than in others. It has happened in the mining communities of Fife and in the south Wales valleys, the Ayrshire coalfields and parts of Clydeside. Where the economy is prosperous, people can get back into work again. It may not be exactly the sort of work that they would like but, where the economy is very strong, people who drop out of the labour market can get back into it again. However, they cannot do that in the areas where that is more difficult. That is at the root of understanding why we went from 750,000 people of working age being on disability benefits in the late 1970s to 2.5 million people now: the mining-area phenomenon has happened across the country. Consider the geography of Scotland and where the high numbers of people on sickness and disability benefit are; they are in places such as Inverclyde, West Dunbartonshire and North Ayrshire—the areas with difficult local economies. The number in Aberdeenshire is much lower. It is not quite as low as in parts of south-east England, but it is much lower than in the areas that I mentioned.

**Alex Rowley:** Thinking about the data on each sector, can anyone else on the panel tell me whether any specific sectors have been much more impacted by Covid than others and are struggling to recover, and are there steps that the Government could take across sectors?

**David Freeman:** I can give you an idea of what sectors have been impacted, but I cannot really comment on Government policy, so I will leave that to the other panel members.

The sectors that have been most affected are the ones that you might expect. Looking at the situation pre-Covid, we can see that the area that has been biggest hit is arts, entertainment and recreation. The number of jobs in that sector is down by more than a quarter—29,000—compared with the end of 2019.

Other areas that have seen large falls in jobs available are accommodation, food services,

hospitality and other service activities, and also agriculture, forestry and fishing. That has been partially offset by increases in other industries such as human health and social work, where, as you might expect, the number has gone up by 33,000. The numbers in admin and support services, and public administration and defence—central Government, in effect—have also increased, but those are all areas that are struggling to attract people.

We do not have data on vacancies by sector for Scotland but, across the UK, health and social work is the area with the biggest demand. However, demand in that sector has always been quite high, and we have also seen increases in demand in wholesale, retail, accommodation and food. Those areas have lost a lot of jobs and the demand is there to replace them, but the supply is not coming through.

There is some experimental data for Scotland from looking at online job adverts and, although data from the ONS is showing that, in the UK as a whole, the number of vacancies has started to fall from a record peak, online vacancies in Scotland seem to be at a steady level. They may even be trending up slightly, which shows that the demand in Scotland is being maintained at quite a high level compared with the UK.

**Tony Wilson:** I was going to make a similar, related point. The issue is that we do not have enough workers to fill the jobs that are being created, so while there have definitely been challenges in some industries, we intuitively know which ones those are and the data backs that up.

It is actually the growth in employment—particularly in relatively higher-skilled and professional jobs—that has been most stark and stood out most during the last couple of years. We can look at what is happening internationally. I appeared on a panel before a House of Lords committee last week with Werner Eichhorst from the Institute of Labor Economics in Germany. He said that, in Germany, the single biggest issue that they face is how to fill all those jobs and support the transition to more highly skilled work.

09:45

In the UK, we are held back so much on labour supply, because we have fewer people as a result of lower migration levels, people leaving and ill health that we are struggling to fill those jobs.

There are risks, and there are industries that have been significantly affected, but I believe that, if we can work better on how we support reallocation and help people to move jobs, we can meet growing demand and support a stronger economy in the future.

**Alex Rowley:** On that question, to what extent are pay, terms and conditions a factor? In social care, for example, we are really struggling in Scotland, but the pay and terms and conditions are so much poorer in private care provision.

**Tony Wilson:** That is a very important point; the issues are broader than the specific impacts of the pandemic. When we look at what is happening in labour demand, we see significant growth in nominal pay. Inflation is wrecking pay, full stop. Nominal pay in the private sector is growing strongly, partly because there is such competition for jobs, but in the public sector—and in social care, which has both public and private provision—pay growth is really weak, at about 2 or 2.5 per cent year on year.

Part of what is driving high vacancy demand in the public sector is the fact that people are simply leaving. People are leaving jobs, and they are not taking up new jobs, because the private sector is offering better terms. That is a fundamental challenge that we are going to face in the next few years. First, we are facing cost of living impacts on public sector workers, which are, at the moment, going to be phenomenally greater than they are on private sector workers because of the pay position. Secondly, vacancies in many public sector industries are beginning to grow, which is—I think—because pay is being held down.

**Alex Rowley:** Finally, I go to Louise Murphy. With regard to the impacts of Covid, are we seeing major increases in mental health issues? You talked about the waiting lists and the impact of that. Is there data available that shows a clear increase in mental health issues and people becoming ill? What is your view on the impact?

**Louise Murphy:** We have data around different health problems, as has been mentioned. We have the survey data, but we also have rich Department for Work and Pensions data that gives us information about people who are on disability benefits, including those with mental health problems. With regard to the timing, it is hard to draw a clear link and say what is a direct impact of the pandemic, but we can definitely say that, since the 2010s, there has been a gradual increase in the proportion of the overall population who have mental health problems.

I point out that although, in this inquiry, we are thinking about those who have dropped out of the labour force and are economically inactive, we are also seeing those problems among people who are in work. We have seen quite a dramatic increase in the proportion of people in employment who have mental health problems such as depression and anxiety. That is having quite a big impact on the disability employment rate. We can definitely see a trend in increasing mental health problems.

Again, to broaden out the picture, although much of the recent rhetoric has been about older workers, we are also seeing an increase in economic inactivity as a result of mental health problems among younger people. For example, since 2006, the number of young men aged between 18 and 24 who are inactive due to mental health problems has doubled. Again, that predates Covid.

It is certainly a problem, but it is certainly not all due to the pandemic.

**Jim Fairlie (Perthshire South and Kinross-shire) (SNP):** I have a quick supplementary to that—Hannah Randolph and Tony Wilson might be best placed to answer it.

We have talked about employment churn and workforce churn in areas such as agriculture, hospitality and the care sector, where people have stopped working for a period of time and then thought, “Actually, my previous lifestyle doesn’t suit me any more.” Hannah, in your submission, you say:

“People will be encouraged to re-enter the labour market if they see a healthy, buoyant jobs market.”

Someone could walk into any pub, club or care home anywhere in the country right now and be offered a job, because they are crying out for people. How do we square the facts that employers are desperate for workers but some people are in the inactivity grouping that we are discussing in our inquiry?

**Dr Randolph:** The language in the Scottish Government’s publications on its employment policies is such that we should focus on finding individuals the right job at the right time. It is true that there is a high number of vacancies right now and that demand for workers is high, but if those vacancies are not for the right jobs it is difficult to get people into work. We know that, in particular, priority groups such as disabled people and single parents face additional barriers to work. They will most likely need additional support to enter the labour market. It is true that there are jobs out there, but they need to be the right jobs at the right time.

**Jim Fairlie:** [*Inaudible.*—do you want to add anything to that?

**Tony Wilson:** Sorry—was that question directed to me?

**Jim Fairlie:** Yes.

**Tony Wilson:** I very much agree with that.

There are issues around how effectively we are reaching people who are out of work—I am thinking about Jobcentre Plus in that regard. Where does someone go if they are out of work but want help to find it if they are not claiming the

right benefits? We do not have a public employment service in that sense. Many so-called economically inactive people say that they want to work—in fact, there are more such people than there are unemployed people. However, in general, they are unable to go into jobcentres to access employment support. They are also often not a priority for accessing other local support, including in Scotland. We must consider how we can better reach those people so that we can help them to understand the sorts of jobs that are available and find jobs that they want to do.

A related point is that, as you have said, many people have simply drifted into long-term economic inactivity following furlough and it has been hard to get them back. Looking back now, it was a mistake that we did not provide more structured, active support to people who were on long-term furlough. In the data, we are clearly seeing people moving through furlough and becoming more and more long-term economically inactive. In particular, there has been a growth in people saying that they are retired, which has been primarily a post-furlough phenomenon rather than an immediate post-pandemic one.

The third aspect is about what employers do. For the past 30 years, they have been able to rely on an increasing labour supply because of a number of factors such as population growth, more older people working, more women being in work, and higher migration. The labour force has grown over that time. Changes in demand and higher demand have been met by supply for three decades—that has been a consistent pattern. However, that trend has gone into reverse during the pandemic. Employers now have to think differently not only about how they recruit, where they advertise and the language that they use but about how they design jobs, do induction training and understand their local labour markets. They must talk more to their local partners such as employability partnerships and Jobcentre Plus about how they can reach people and work together.

We must also consider how we can better support people at work—in particular by offering more flexibility on the issues that Hannah Randolph mentioned, including childcare, transport and health.

The situation is really difficult. Certainly for the next five or more years, a smaller labour force, high demand and a need to think much more creatively about how we engage people and bring them back into work will be permanent features. Currently, they do not go into jobcentres and they tend not to engage with employment support.

**Jim Fairlie:** That slightly concerns me, with regard to industries such as hospitality and the care service. Creating flexibility in such jobs will be

especially difficult given that workers have to be there.

Louise Murphy, do you want to come in on that point?

**Louise Murphy:** Yes. I agree absolutely with what Tony Wilson and Hannah Randolph have said.

I will make a supplementary point. When we consider whether economically inactive people could possibly fill vacancies, we need to be clear in our heads that although, as Tony said, some of them would like to work but, for whatever reason, are not looking for it, a chunk of them do not want to work and probably never will. We should not waste our time thinking about what more support we can give them or policies that focus on encouraging those people back to work. The reality is that the majority of older people in their mid-60s—the Covid pandemic has happened, they have been furloughed and have retired early—own their homes outright or are in a fairly good financial situation. There is little to nothing that the Government could do to encourage those people back to work, so that is not where we should focus our energy. We should not lump together all economically inactive people, and we should think about the economically inactive people who with some support could re-enter the workforce.

**Jim Fairlie:** That is an interesting take; I will regurgitate that one at a later date.

**Professor Fothergill:** I will briefly make four points in relation to what I have just said and the questions that have been asked. I do not think that the issue is that certain sectors declined during the pandemic, but more that self-employment above all has not bounced back to pre-pandemic levels. If you look at the figures, you will see that the number of people who are in work as employees got back to pre-pandemic levels, but the number of self-employed people has not. The last time that I looked, that was a good 500,000 lower than it was previously across Britain as a whole. I will be honest: I do not understand what is going on there, but that is what the statistics say. That is my first point.

My second point is on vacancies. We should not think that all vacancies are hard-to-fill vacancies, even though there are a lot of them out there. A lot of the vacancies statistics tell us about the speed of turnover in local labour markets. If somebody moves from a job that they already have into another job, their employer has to advertise to fill that job, and if they fill it with somebody else who is moving from an existing job, a vacancy chain is created. That is turnover in the labour market. The labour market went into deep freeze during the depths of the lockdowns and came back to life with some vigour. As part of that phenomenon,

there was a lot of turnover, which inevitably means a lot of advertised vacancies. I am not saying that there are not hard-to-fill vacancies, but we have to be careful in interpreting the vacancy data.

**Jim Fairlie:** Before you go on to your third point, I want to say that that is a really important point. Sectors need to work to re-attract people. You used to be able to fill a job in hospitality pretty rapidly, but now you cannot, because people have moved. They might not be out of the labour market, but that sector is suffering.

**Professor Fothergill:** The rate of turnover varies from sector to sector in normal times, but there has always been a high rate of staff turnover in the hospitality and catering industry.

**Jim Fairlie:** Yes, but it always used to be able to fill vacancies.

**Professor Fothergill:** When people start moving from job to job again, that in itself creates vacancies, even if the vacancies are not necessarily inherently hard-to-fill vacancies. I accept that there are inherently hard-to-fill vacancies—the health and social care sector in particular has vacancies that fit that model.

A lot of the time, it is people moving from job to job that creates the vacancies. They move and the employer has to recruit to fill the job; they fill the job with somebody else who has moved from another job, and that job then has to be advertised. That is partly what we are observing with the numbers of vacancies at any given point in time.

This is my third point. There is an issue about the fit between what jobs are out there and what some people without jobs would like as their employment or are capable of doing. Especially once we talk about people with mental or physical health problems or disabilities—quite a large chunk of the workforce—the mesh between what is there and what people can do is far from perfect.

This is my fourth point. After a certain point, the people who find it hard to fit back into the workforce give up looking for work—they despair. I whole-heartedly agree with Louise Murphy's comment that we should not necessarily pursue everybody who has been out of the labour market on incapacity, sickness and disability benefits or has been economically inactive. Even our estimates in the Sheffield Hallam University team suggest that probably no more than about 30 per cent of people who are on sickness and disability benefits would be in employment if we had a genuinely full employment economy everywhere. The other 70 per cent would be out of the labour market anyway. You cannot get everybody back in again.

10:00

**Jim Fairlie:** I have a final, small point on the loss and inactivity of over-50s. Louise Murphy might want to jump in on it. It feels to me like the workforce is losing a huge amount of experience if those people have dropped out of the labour market and are not coming back again. Louise Murphy said that we should not bother chasing them, but I counter that by saying that we are losing decades of experience from the workforce, so should we not try to get those people back into the labour market?

**Louise Murphy:** That is a totally valid point. My slightly more nuanced take is that we should acknowledge that there will be huge variation within the age group 50 to 65. Let us not focus on those aged 64 but, if people aged 50 want to work, that is the group that is more likely to re-enter the labour force as time goes on.

It is quite early to say, but there is some idea that the cost of living crisis might have an impact. Some recent survey data has shown that, if people's finances got worse, they would consider re-entering the labour force. There is a huge degree of uncertainty about how the next 12 months will go, but that might have an impact. People who, during the pandemic, thought that they might be able to retire early have reassessed their finances and realised that that might not be an option. Therefore, there is definitely a potential that some people might choose to re-enter work over the coming years.

**Jim Fairlie:** Does Steve Fothergill want to add to that?

**Professor Fothergill:** Employers probably need to adjust their expectations a little. It is not only about what the individual wants but what the employer expects of people. For many years, employers in certain sectors have been able to recruit fit and healthy young workers—often, I have to say, migrant workers from central and eastern Europe—but that might not always be possible in the future. They need to recognise that there are people who are getting on a little bit in years and can offer lots of skills but maybe cannot run around a warehouse at high speed like the 25-year-olds are able to do.

It is not just about what people want to do. It is about what employers expect as well.

**John Mason (Glasgow Shettleston) (SNP):** There is a lot to follow up on. I want to clarify some of the data—perhaps this is a question for Mr Freeman from the ONS. It is about the term “economic inactivity”. Do I understand it correctly that people who might only work one hour a week and people who might work 35 hours a week are all lumped together and defined as economically active? Is that correct?

**David Freeman:** The international definition of employment that we use is a minimum of one hour of paid work in the reference week when we go out and interview people. However, very few people work a small number of hours. We do not count the number of people who work one hour because there are not enough of them to give us a statistically sound estimate. Only around 5 per cent of people work fewer than six hours a week. Most people work more than five hours. The average is just over 30 hours. That is around 36 hours for full-time work and around 16 hours for part-time work.

**John Mason:** That is helpful. It struck me that some students might work for only a few hours a week and some might not, but some would be counted as economically inactive and some as active.

We had evidence from the Institute for Fiscal Studies, which talked about “the effective workforce”. It will be interesting to hear what other people think about that but I take it to mean people who are doing full-time jobs.

The other angle on that is that some people have definitely reassessed their whole lifestyle and work-life balance. A lot of us would say that that is a good thing—you can spend a bit more time with your family and so on. I heard one guy on the radio last week—a musician—saying that he previously never took breaks, and now he is taking breaks. That is good in a sense, but it probably contributes less to the economy.

I am struggling a wee bit here to ask a specific question. Is the issue that people are doing fewer hours and have a better work-life balance, but that is actually damaging the economy? I am not sure who wants to answer that.

**David Freeman:** Tony Wilson might want to come in after me. There is no evidence that people are working fewer hours on average. If we look at the total number of hours being worked across the UK, it is slightly below where it was pre-pandemic, but that is because there are slightly fewer people in employment.

Average hours for part-timers are actually slightly above where they were pre-pandemic; for full-timers, average hours are very slightly below where they were. In terms of the hours that each individual worker is doing, we are back to where we were. It is the gap in employment that means that we are not getting the total hours back to where they were pre-pandemic.

**Tony Wilson:** David Freeman has made my point for me. I will just point out that the level of part-time employment is, strangely, lower than it was before the pandemic. That is explained partly by lower self-employment overall, but mainly by the fact that there are far fewer women working

part time as employees than there were before the pandemic. Part-time employment for men has increased a bit, but part-time employment for women has fallen hugely, by about half a million.

That is almost counterintuitive. This is just speculation, but that may reflect people being able to work a bit more flexibly because of some of the changes resulting from the pandemic. It may also reflect some people in areas such as social care and health, which are female-dominated industries, having to work longer hours during the pandemic and so on.

It is quite interesting; the story on hours is much more nuanced than it may feel like. I agree with John Mason that we often hear about, and we have seen, people shifting down and changing their jobs.

I do worry that some of those changes may be storing up some issues, because we are starting to see a rise in the number of people who are outside the labour force, and economically inactive, because they are looking after family, including looking after children at home. Those people are predominantly mothers of younger kids. The lone-parent employment rate is starting to fall for the first time in about 30 years—for the first time ever, really. I worry that things such as issues around access to childcare, lack of flexibility at work and the unwinding of some of the benefits of flexible and hybrid working that we saw during the pandemic may be starting to make it a bit harder for people to keep coming back to work or to stay in work, in particular if their circumstances change.

We need to capture the benefits of some of the flexibility that we have had. I personally do not view that as a threat—it is an opportunity for us to think differently about how we can balance work and life and bring more people into the labour force.

**John Mason:** I will stick with Tony Wilson. Have we now reached a settled state, or are we—

**Tony Wilson:** No.

**John Mason:** That is a one-word answer—thank you.

I am thinking specifically of city and town centres. We do not really know whether they are going to recover and whether people will eventually go back. Do you want to expand on that “No”?

**Tony Wilson:** Who knows? It is really crystal-ball gazing. We do quite a bit of work with employers and employer bodies as well as more public policy-facing research, and I think that a lot of employers are really struggling with those issues. What is the right balance? What is the balance between hard and fast policies versus

using a set of principles? Should we encourage people back to work, and if so, how do we do that?

I think that there will be permanent changes in how we use city centres. We will simply not go back to people working full-time, predominantly in offices. We have already seen significant impacts on transport, in particular public transport, in every major city, but especially in London. That tends to get a lot of national coverage, certainly in England—we hear about bus routes in London closing down because people are not using them, and the massive funding problems that Transport for London is facing.

Those are important changes. We cannot hold back the tide on that, though—we will have to deal with those adjustments, as we have to deal with the issue of how office space is used in town centres. It looks as though we are seeing an increase in office occupancy, and in people returning to work and spending less time working from home, but I really do not know where that will settle. Firms are still struggling with getting the balance right.

Many firms might struggle to recruit in the tight labour market if their competitors are offering more flexibility, particularly in professional knowledge economy jobs that do not require physical attendance in the office to the same extent.

**John Mason:** That is helpful. I am interested in where things are going as we move forward, so I will link that to a suggestion in your paper, Professor Fothergill, that in some areas there is no point in investing in or boosting the economy further because those areas already have full employment. You said that we should target our support more at areas where there is not full employment, which I presume are the needier areas.

**Professor Fothergill:** That is correct. I do not see how we can raise the employment rate much further in prosperous areas, such as large parts of southern England. There are probably one or two areas in Scotland that fit that description as well.

If you are really trying to raise the overall employment rate, you need to focus on the places where the employment rate remains low, economic inactivity remains high and large numbers of people are out of the labour market on sickness and disability benefits. In that way, some of those people might be brought back into the labour market.

The key to raising employment is, dare I say it, a levelling-up policy. “Levelling up” is the term that the present Government in Westminster uses, of course, but the concept has been around for donkey’s years as “urban and regional economic development”—an attempt to bring the less prosperous places up to the standards of

prosperity of the more prosperous parts of the country. You cannot go much further in large parts of southern England, in particular and, possibly, even in the Edinburgh economy, which always looks rather like southern England in terms of many of its economic indicators.

**John Mason:** You are involved in the cross-party group on industrial communities. Is your suggestion that, if the Scottish Government has money, it should focus on the needier areas—the old industrial areas?

**Professor Fothergill:** Yes, that is probably correct. It is not exclusively the old industrial areas, although those form the predominant largest single group of areas that have difficulties across Britain and also, probably, in Scotland. However, the places with the weaker local economies are the ones that still have labour market slack, even after all the years of trying to rebuild their economies. We have made progress, but there is still a long way to go in those places. Therefore, yes, absolutely, if you cannot raise the number of jobs in places where there is full employment, you must raise the number of jobs in other areas.

**John Mason:** I also want to touch on the issue of long Covid. The committee will do a separate investigation into that, so we will not go into it in huge depth right now. However, one of the trade unions suggested that people are afraid of disclosing long Covid to their employers. A suggestion came from elsewhere that, perhaps, some employers are more sympathetic to staff who have long Covid than other employers. Do any of the witnesses have a comment on that or any experience of that? Louise Murphy, do you have any thoughts on it?

**Louise Murphy:** We have not done detailed work on that. Long Covid is a new phenomenon—we did not know about Covid three years ago—so it is natural that there will be a period of adjustment while employers think about how they respond to it in relation to those who have it and how to speak about it. Therefore, some of that is to be expected and we should see this as an adjustment period.

For example, long Covid is not classed as a disability, but there is some debate about whether, over time, it will be classed as a disability under the Equality Act 2010. An employer might treat long Covid slightly differently for that reason—because it is not officially a disability in the way that some other conditions are. Other witnesses might be able to give a more detailed answer.

**John Mason:** Hannah Randolph, do you have any thoughts on that?

**Dr Randolph:** I do not have specific knowledge of people’s experience with regard to deciding

whether to report long Covid to an employer. Professor Fothergill emphasised the fact that, in areas where some workers are healthy and some have poorer health, the ones who are healthier will have an easier time finding jobs.

Therefore, I can certainly understand why people would be concerned about disclosing long Covid, particularly if it is not protected as a disability. I think that that warrants further attention from the Government and further monitoring, although that is difficult to do, because long Covid is somewhat difficult to identify. At the moment, we are relying on people to self-report, which is likely to result in undermeasurement, but the alternatives are also likely to undermeasure the extent of long Covid, because it is not well understood medically at present.

10:15

**John Mason:** Mr Freeman, you mentioned ethnic minorities towards the end of your submission. Can you say anything about the impact on ethnic minorities and how they are coping?

**David Freeman:** I am trying to find the relevant bit.

**John Mason:** I am referring to the second-last page of your submission.

**David Freeman:** I was just reminding myself of what we said.

The fact that

“the economic inactivity rate has decreased for ethnic minorities in Scotland since pre-pandemic”

means that the picture is probably slightly more positive—that is bucking the trend of the overall picture. Given that the economic inactivity rate for ethnic minorities in Scotland is now lower relative to the average for the UK as a whole, it looks as though there has not been a specific impact on that group as part of the Covid pandemic.

We talked about immigration. That is probably where we have seen the changes over the pandemic, depending on where people come from. However, in relation to economic inactivity, it does not look as though the pandemic has had a more adverse effect on ethnic minorities in Scotland than it has had on other groups.

**John Mason:** That is helpful—thank you.

**Brian Whittle:** It has been interesting to listen to the discussion, although it has made my questions more complicated.

I want to ask about the impact of early retirement. Tony Wilson mentioned that furlough had acted almost as a driver of early retirement. There are certain industries with a higher age

demographic. For instance, a friend of mine owns a haulage company, many of whose employees are 50 plus or—Professor Fothergill mentioned this—from eastern Europe, and especially Poland, strangely enough. During furlough, a lot of those eastern Europeans went home and did not come back, because there is a shortage of drivers in eastern Europe, so the company has to pay more. After furlough, many of the drivers over 50 did not come back or came back to do only a couple of shifts a week, because that gave them a better work-life balance. As a result, the wages in that industry have grown exponentially.

I will start with you, Tony, as you raised the issue. Have you done any work on the impact that early retirement has had on specific industries?

**Tony Wilson:** Unfortunately, we have not done any industry-specific analysis on early retirement. However, in March, and again in September, the ONS published some really good analysis of older people who have left the labour market, looking at their previous earnings and occupations. To paraphrase that analysis, it shows that people have left relatively high-paid, high-skilled jobs as well as relatively low-paid, low-skilled jobs, which is interesting.

However, there appear to be differences between men and women in that regard. It seems that the people who have left relatively high-paid jobs have tended to be men in more senior roles, as one might expect. We can even see that in the headline data when we look at changes in employment by occupation. According to the annual population survey, overall, the number of people in the highest occupational group—chief executives and company owners and directors and so on—has fallen since the pandemic. That might well reflect older men, in particular, selling businesses and taking the self-employed income support money, and self-employed people in general leaving the labour force, which Steve Fothergill mentioned.

When we look at the group of people who have left lower-paid and lower-skilled jobs, we see that it is made up of men and women. For example, we have seen significant falls in the number of people working in domestic cleaning, although, as you would expect, we have seen rises in industrial cleaning. Domestic cleaning is predominantly a female workforce, and it is predominantly older people.

There are definitely quite important differences. There are people who have retired on a relatively decent pension—it might not last as long as they had hoped it would, given what is happening with inflation—and there are also a lot of people who have left and gone into lower-skilled jobs with far lower incomes, and they will struggle to come back.

**Brian Whittle:** Has the Resolution Foundation done any work in the area?

**Louise Murphy:** Likewise, we have not done detailed work on the differences in activity rates by previous industry or occupation. I agree with everything that Tony Wilson said about, for example, differences by pay and gender.

Just one point to follow up with is the important idea of Covid making people reassess their work-life balance. One reason to think of it that way is that trends in economic inactivity in recent years since the Covid pandemic are very different from trends in the aftermath of the financial crisis in 2008. For example, after the financial crisis, we saw an increase in participation among older workers aged 55 and above, whereas we are now seeing the opposite. That is another reason to think that there has been something unique about Covid, be it furlough or be it people being able to save more during the pandemic and choosing to leave the workforce.

**Brian Whittle:** Would anyone else like to comment?

**Professor Fothergill:** Deep in the papers that were circulated for the meeting, there is a summary of the views on the issue that were put forward by Age Scotland. Age Scotland makes six points about why people may be dropping out into early retirement. Without having done any detailed research on the issue, I have got to say that those six points seem eminently sensible and a very good assessment of what is likely to be going on here. I would recommend that.

**Brian Whittle:** We have touched on this before, but I am interested in the significant impact that the attitude to work and the work-life balance, and changing working patterns such as hybrid working, are having on the city centre workforce. Are we going to have to redesign city centres? In this meeting, four witnesses are appearing remotely and one is in the room. Previously, when you had a business meeting, you were in a coffee shop somewhere or you had lunch or whatever, but that does not happen as much any more. Are we going to have to rethink the way in which we employ people in city centres? I will go to Dr Randolph first.

**Dr Randolph:** I do not have any particularly detailed thoughts on that. As the pattern of work changes, we will probably have to rethink a bit how cities are organised. As someone has already mentioned, we need to think about the transport system and make sure that it is set up in a way that works for the way in which people are currently working and living their lives. As time goes on, we will need to pay attention to those sorts of systems and adjust them, as needed, to

respond to what is happening in the labour market and in society more generally.

**Brian Whittle:** With that issue in mind, there is the potential that a significant number of city centre offices will lie empty. I wonder whether we will end up with people moving back into city centres to live rather than to work. David, do you have any thoughts on that?

**David Freeman:** There are probably a couple of things to think about. You talked about the change in working patterns. The pattern of home working has changed quite drastically since the start of the pandemic. In Scotland, about 15 per cent of people were doing some sort of home working prior to the pandemic; it is just over 40 per cent now. A lot more people are spending at least some of their time away from the office space working at home or working remotely.

I go back to the discussion about what would tempt the older workers—the 50-pluses—back into the workforce. We have done a couple of surveys of that age group, and by far the biggest thing that they would look for is flexible working—flexible hours around their lifestyle and home working. The attitudes of people in work to where they work are changing. If we want to get the 50-pluses back into the workforce, having flexible working and that home-working option might tempt them back, because it looks like there is a longer-term trend away from office working.

**Brian Whittle:** Does anyone else want to come in? That was my final question.

**The Convener:** Would any members or witnesses like to make any final comments?

**Murdo Fraser:** Professor Fothergill opened his mouth; I thought that he was going to say something.

**Professor Fothergill:** If we are at the final stage of comments, I will just say that you need to keep in mind three things all the time when looking at these issues. First, take the long view. Secondly, do not ignore the geography of what you are looking at. Thirdly, do not forget the demand side of the labour market, because it is not all about labour supply; it is also about what employers want, what they are willing to take and how many jobs are out there. I make just those three points, on the long view, geography and demand.

**The Convener:** The evidence session has been an informative and engaging start to the inquiry. I thank all the witnesses for your evidence and giving us your time. We intend to continue taking evidence in November before we hear from the Deputy First Minister at our meeting on 8 December. If witnesses would like to raise any further evidence with the committee, they can do

so in writing, and the clerks would be happy to liaise with you on how to do that.

The committee's next meeting will be on 10 November, when we will continue our inquiry by considering the drivers behind long-term illness in greater depth. That concludes the public part of our meeting.

10:27

*Meeting continued in private until 10:37.*

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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