



OFFICIAL REPORT  
AITHISG OIFIGEIL

DRAFT

# Economy and Fair Work Committee

Wednesday 28 May 2025

Session 6



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Pàrlamaid na h-Alba

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**Wednesday 28 May 2025**

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**ECONOMY AND FAIR WORK COMMITTEE**

**17<sup>th</sup> Meeting 2025, Session 6**

**CONVENER**

\*Colin Smyth (South Scotland) (Lab)

**DEPUTY CONVENER**

\*Michelle Thomson (Falkirk East) (SNP)

**COMMITTEE MEMBERS**

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

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

\*Jamie Halcro Johnston (Highlands and Islands) (Con)

Daniel Johnson (Edinburgh Southern) (Lab)

\*Gordon MacDonald (Edinburgh Pentlands) (SNP)

\*Lorna Slater (Lothian) (Green)

Kevin Stewart (Aberdeen Central) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

David Phillips (Institute for Fiscal Studies)

Simon Pittaway (Resolution Foundation)

Professor Bridgette Wessels (Productivity Institute)

**CLERK TO THE COMMITTEE**

Anne Peat

**LOCATION**

The James Clerk Maxwell Room (CR4)



## Scottish Parliament

### Economy and Fair Work Committee

*Wednesday 28 May 2025*

*[The Convener opened the meeting at 09:30]*

### Decision on Taking Business in Private

**The Convener (Colin Smyth):** Good morning. I welcome you all to the 17th meeting in 2025 of the Economy and Fair Work Committee. Our first item of business is a decision on whether to take item 3, which is consideration of evidence, in private. Are members content to take that item in private?

**Members** *indicated agreement.*

## Regional Inequalities and Productivity

09:30

**The Convener:** Our next item of business is an evidence session on regional inequalities and productivity. This morning's evidence session is part of the committee's on-going consideration of the Scottish Government's national strategy for economic transformation, of which productivity is a key element.

I am delighted to welcome our panel of witnesses: David Phillips, associate director of the Institute for Fiscal Studies; Simon Pittaway, senior economist at the Resolution Foundation; and Professor Bridgette Wessels, professor in the sociology of inequalities at the Productivity Institute. Thank you so much for joining us this morning. As always, I make an appeal to members and witnesses to keep questions and answers as concise as possible.

I will kick off with the first question. Regional inequalities in earnings, productivity and performance across Scotland are very well documented. I am based down in Dumfries and Galloway, where we usually have the lowest wages and earnings in Scotland. There is a substantial difference in earnings between the centre of Edinburgh and rural communities in Dumfries and Galloway. I am keen to kick off the evidence session by asking the witnesses for their views on what drives regional inequality across Scotland and on how sectors compare in different parts of the country.

That is a nice, straightforward question to kick off with. I do not know who wishes to go first, but the first person I can see is Professor Wessels on my screen, so we will kick off with you, professor.

**Professor Bridgette Wessels (Productivity Institute):** Thank you very much for inviting me. I am delighted to be here.

That is a great question. It is to do with the value of those sectors. I do quite a lot of work in Dumfries and Galloway, where you mainly have agribusiness, which is diversifying, so there are lots of opportunities. It is a matter of bringing the investment and the skills into that place in order to realise the potential. Edinburgh, on the other hand, is very well established, with universities and a skills pipeline. People in Edinburgh are very well placed, they are much better connected internationally and they understand the investment landscape much more.

The economy is having to adapt and develop resilience, and it is a matter of understanding the potential in places such as Dumfries and

Galloway. What kind of infrastructure is there, and how can the various sectors there get investment and draw out the maximum productivity for growth?

**The Convener:** Is it about growing those sectors that have historically low wages, or is it about attracting new sectors into the area?

**Professor Wessels:** It is both. I have seen something interesting there, having worked with businesses and farmers in the area. To take an example or case study, one farmer's farm was not doing very well, so he diversified and invested in green tech. He considered how he could use his waste in much more productive ways. Not only has he improved the yield of his farm, but he has diversified into holidays, tourism and so on. It is about enabling some of the existing sectors to realise their potential in such areas. It is not about going from being a farm to being a specialised international health expert, for instance; it is about realising potential. It is therefore a bit of both.

The key things in Dumfries and Galloway in particular include inward investment and inward migration: getting people to move to Dumfries and Galloway in order to foster skills and grow the economy.

**The Convener:** I put the same question to David Phillips.

**David Phillips (Institute for Fiscal Studies):** Good morning. If we consider the factors underlying differences in productivity across places, not just within Scotland but across the United Kingdom as a whole and across the developed world, we find a combination of two factors, which self-reinforce: the composition of the workforce, with concentrations of very highly skilled people, increasingly so in major cities, and the concentration of high-paid jobs in those cities. There is a bit of a chicken-and-egg situation here. High-skill firms will go where the highly skilled people are and, to some extent, highly skilled people will move to where the high-skill jobs are.

The bottom third of the wage distribution looks fairly similar across different places. It is really the top third, and particularly the top 20 per cent, that looks very different. It is that concentration of very highly paid jobs in the cities that brings up average earnings and average productivity.

Scotland does a relatively good job compared with most other areas outside of London in retaining graduates and highly skilled people within Scotland. We particularly see that in Edinburgh, to a lesser extent in Glasgow and, historically at least, in Aberdeen.

Scotland's rural areas do reasonably well economically compared with other rural areas in the UK, certainly in terms of earnings. I do not

have the exact figures to hand, but I looked into this a couple of years ago. Although Scotland has a large share of the most rural areas in the country, it has very few of the lowest-productivity areas such as Cornwall or Lincolnshire, which are the most rural areas of England. Some rural areas in Scotland—not so much Dumfries and Galloway, unfortunately, but places such as Stirlingshire and Perthshire—score really quite well in terms of earnings compared with other more rural areas.

When it comes to thinking about an economic strategy for Scotland and its regions, we need to avoid thinking that each area needs to be a high-tech, super-high-productivity area. There is evidence that agglomeration or clustering effects matter for the generation of certain knowledge-based industries in particular. One perhaps needs to consider having a few key high-tech hubs, ensuring that there is access to those hubs for people across Scotland, with housing available there and market access from other parts of Scotland.

In the rest of Scotland, it is a matter of ensuring that the comparative advantages of those areas are supported. I would echo what Professor Wessels has said: it is important not to think that success for Dumfries and Galloway lies in making it a bit more like Edinburgh in its economic mix; it is more about ensuring that people in Dumfries and Galloway can access opportunities in places such as Glasgow and Edinburgh, while ensuring that businesses in Dumfries and Galloway have their own support tailored to them.

**The Convener:** That is an interesting point about how average earnings do not always reflect the lowest earnings or those at the top.

Our final witness is Simon Pittaway. I put the same question to you, Simon.

**Simon Pittaway (Resolution Foundation):** Good morning, everybody. I will first pick up on a couple of things that the other witnesses have said. David Phillips made an important point about having a sense of realism about what levelling regional inequalities might look like.

At the Resolution Foundation we did a big piece of work in recent years on industrial strategy for the UK as a whole. As part of that, we did some in-depth qualitative work in Yorkshire, talking to people about what a levelled-up Yorkshire might look like for them. What came out of that was a sense of realism that not every place needs to be the same. People are perfectly comfortable with some level of difference in the opportunities that are available between regions. First, they just want to feel like they are somehow connected to those opportunities—transport links and infrastructure being a big part of that. Secondly, they want to have a sense of pride in their local area, even if it

is not a superstar tech city of the future. That was a well-made point by David Phillips.

On the drivers, I agree that the workforce's composition and the location of particularly high-skilled, high-paid jobs are very important. However, there is something to be said for considering which inequalities you are addressing. Productivity is a very important economic output measure, which correlates with living standards over the long term pretty well. However, if you are talking about regional levels, some productivity benefits do not necessarily accrue to workers but go to firms. In certain regions, firm owners might not be based in the regions themselves. If you are raising productivity in such a way that the benefits do not accrue to workers, you might not be reducing the income gaps that you might be concerned about when thinking about regional inequalities.

**The Convener:** Thank you. Lorna Slater has a follow-up question.

**Lorna Slater (Lothian) (Green):** Yes—I will continue on the same theme. The financial press and so on certainly bemoan western democracies' lack of productivity growth, so it would be useful if you can frame that for us a bit. Is improving productivity possible? Is it desirable? Does anyone know how to do it, because it seems like everybody is struggling? Is that really what we need to do in order to transform our economy and make it less unequal?

**Professor Wessels:** At the Productivity Institute, which is a UK-wide Economic and Social Research Council-funded institute that looks at productivity, we have widened our definition away from looking only at inputs and outputs. Yes, those are important, but if we become more productive, it means that we not only have more money to develop public services but are giving people aspiration and talent and taking them into the workplace, where they can realise and develop their skills.

We have to think of work not only as a transaction; we have to think of fair work and good work as part of the ways in which people develop. It is about creating those opportunities. It is also about ensuring place-based activity. In a sense, if you have growth and opportunities in place, it enables places to grow and flourish. The productivity puzzle is very difficult, because new technologies are coming down the line, and new supply chains and markets are evolving all the time, and there is always a lag between the innovation of new technologies and the development of new markets, and the ways in which countries adapt in order to harness such opportunities for their populations.

In our 2025 productivity insight paper, we compared Scotland with Wales, Northern Ireland and England, and it is, in a sense, doing quite well. Scotland's size and the diversity of its economy have been useful in fostering productivity. Initiatives such as fair work, community wealth building and so on create a really good platform on which to build inclusive growth.

We have to think about productivity in relation to inclusive growth, which is very difficult, but taking a partnership approach at a regional and national level, and understanding the relationship between the two, is important. One of Scotland's challenges is that it has lots of strategies, so how you move towards implementing them is the key question.

**David Phillips:** I agree with Professor Wessels that productivity is not the be-all and end-all, but it is an important factor. Where you are perhaps coming from with your question is that we need to distinguish between productivity and growth. If you think that growth is not necessarily the answer, you can have higher productivity and then, rather than continue to work as much, take some of that productivity and the benefit of extra leisure time and get more output. Therefore, even if you do not believe that growth is the answer to such issues, extra productivity is probably still good to have.

When it comes to factors that can affect productivity and how easy they are to change, there is quite good evidence about those that affect productivity in a descriptive sense. We know that skills matter and that business investment matters. Increasingly, we know that management skills matter and, traditionally, the UK looks pretty poor when it comes to management skills, certainly when compared with, say, the US, Germany or France.

09:45

What works in improving those things is a little bit less clear. You need to be constantly evaluating what you are doing and learning lessons from other countries—looking at international case studies and reviewing your performance. It is clear that efforts to improve the intermediate level of skills in the UK would probably pay dividends. We tend to focus a lot on universities and a bit less on intermediate skills.

There should be a focus on the productivity of not just the private sector but the public sector, in which, unfortunately, we have seen the biggest reductions—and worst performance—in productivity in recent years. In large parts of the public sector, there has been quite a big increase in staffing numbers, yet there has not been an increase in, for example, the number of operations or treatments through the national health service,

which has dragged down overall productivity growth.

I want to come back to what productivity growth might mean for the future of the state and its ability to fund services and to redistribute. Historically, not just in recent years but on a longer-term timeframe, we tended to see that productivity growth in the public sector somewhat lagged behind that of the private sector. In general, that is about the kind of activities that the public sector does: labour-intensive activities such as healthcare, social care and education. It is not as easy to automate aspects of those activities as it is for activities of many other sectors, so they have not had such high productivity growth. That means that their relative cost has increased, which is one of the factors underlying an increase in public spending as a share of national income and, hence, tax as a share of national income.

I mention that because, looking forward, given what we know about the ageing population and all the pressures on the public sector, a key focus of any productivity strategy must be the public sector—not just the private sector—to help to slow down the looming fiscal crisis that will affect both Scotland and the rest of the UK. If there is one thing that is missing in the strategy—well, there are a couple of things missing in the NSET—it is the public sector, which is a notable absence. It is a large part of the economy and a part that, historically, for many good reasons, has had relatively weak productivity growth. However, new technologies might help to address some of that.

**Simon Pittaway:** I can come in on that question, as well. David Phillips is absolutely right to highlight the role of the public sector and, specifically, the health sector over the past five years or so. It is worth remembering that there are lots of measurement issues in productivity—those are particularly acute when it comes to health—and the headline numbers that feed into gross domestic product do not necessarily take full account of quality improvements. I did a bit of research on that recently and found that, even if you account for productivity improvements—NHS England has published some numbers on that and the ONS has its own series on it, as well—the health sector is still dragging down on productivity growth at the moment, so it is right that that should be an area of focus.

On productivity growth and whether it is something to be aiming for, it is definitely correct that it is not the be-all and end-all. However, it is worth noting that there are a lot of positive spillovers from the things that you might do to boost productivity growth. To go back to the example of the health sector, boosting health sector productivity is good if you want to boost productivity and it is also good for people's quality

of life if they get treated quicker and have better quality health outcomes.

In another example, upskilling the workforce means more education for people, particularly after high school, as David says. If you ask people who have engaged in further education, they are generally very positive about their experience. Further, more capital investment can mean giving people and workers more kit with which to do their jobs. That might take away some of the more onerous, time-consuming bits of their job that they might find less satisfying and give them more time to do the more high-skilled and engaging bits of their job. Even if productivity is not your end goal, lots of things that you might do to boost it have various positive spillover effects elsewhere.

**Lorna Slater:** I have one quick supplementary question about an observed regional inequality, which not everyone will want to come in on. When I travelled to Orkney over the Easter recess, I passed through Thurso and then on to Kirkwall, and I saw the difference between Thurso, with its boarded-up shop fronts, and Kirkwall, with its thriving shops and so on. I asked one of the councillors in Kirkwall about that, and he said—again, this is an anecdote, but I would be interested to hear your thoughts on it—that, because such a large proportion of the economy in Orkney is in the public sector, including the council, people are able to maintain a higher quality of life than in Thurso, which has lacked similar investment. In short, for all that the public sector might be inefficient and lacking productivity, it is a tool that, anecdotally, I have seen can be used to manage regional inequality and regional economic success. Does anyone have any thoughts on that?

**Professor Wessels:** David Phillips will start, and I will follow on.

**David Phillips:** I have a couple of thoughts. First of all, I think that you are right. The public sector is important economically for two reasons, the first of which is just pure redistribution of the kind that you have highlighted. The local government finance system—and indeed the funding system for the UK's different regions and nations—is redistributive. In Scotland, in particular, the islands get a relatively high share of funding, partly to reflect their extra needs. Moreover, they have, in recent years, been particularly good also at winning additional funding, which might also have an impact. So, yes, the public sector is important when it comes to redistribution, and it does a lot to hold up incomes in areas with lower productivity and fewer job opportunities, through both public consumption spending and the benefits system.

Secondly, the public sector and what it does are really important in giving people across Scotland



opportunities to access the best jobs. We should not forget the role of the education system, the health system and the social care system, all of which are particularly important in areas where, perhaps, you do not get the superstar firms with the highest productivity. Those sectors provide not only some good-quality jobs in the local area but opportunities for people in that local area to build their skills. It means that they do not have to move a little bit down the road, but they can still do that to access those high-skilled jobs.

We need to look at what has happened to productivity in the public sector in recent years, particularly in the national health service. We should not say that it is a basket case, because it does a lot of good in supporting economies and opportunities, but there is scope for it to do better.

**Professor Wessels:** You have made a great point about intra-regional dynamics. When we look at different regions or places, we see that this is all about putting in place a mixed economy in order to build resilience in certain places. We do need that mixed economy, and the public sector is part of it.

Again, there is innovation happening in the public sector; I can think of the original roll-out of telehealth in, I think, Dumfries and Galloway, for example, and the work being done at the Crichton Trust, which is almost a community anchor organisation when it comes to wealth building and is really developing the care campus. It is also well known for undertaking world-leading research into the use of robotics in care, and it is bringing the health sector with it in that respect.

Those intra-regional dynamics are vital, and we need a mixed local economy to bring people through for jobs, to ensure sustainable growth—we talk about growth, but let us talk about sustainable growth—and to build capacity and capability in those places. We need think only of the rise of space tech in the islands, for example. People are beginning to see new opportunities in those places.

However, in order to benefit from such opportunities, those places need the skills and capacity to feed into the local economy and improve the lives of the local people and to ensure that other people do not have to be farmed in from elsewhere.

Years ago, Leeds, in England, developed what it called a dual economy. It grew, but the city did not have the necessary skills, capacity and capability. It attracted external people, and there was a smaller inner group of financial people doing quite well, but there was also a left-behind population. That approach divided the city: some areas became quite wealthy and were being gentrified, while the surrounding areas were being left behind.

If we want inclusive growth and participation in the economy, looking at the intra-regional dynamics is important—that is a great point.

**The Convener:** I bring in Jamie Halcro Johnston with a supplementary question on that issue.

**Jamie Halcro Johnston (Highlands and Islands) (Con):** Thank you, convener. I will ask some questions about digitalisation a little later, but first—to follow up on what the witnesses have talked about—I want to ask about the public sector side.

There are some things nowadays that everybody will have experienced. For example, road works seem to take a lot longer than necessary, and there does not seem any great demand to get them finished. Turning to the health sector, I was trying to book patient transport for a family member—it took six calls, and at the end, I was told that I had to ring directly. I then spent 25 or 30 minutes on the phone to somebody else to book something that, in the private sector, I probably could have booked online in a matter of minutes. We see that again and again across the health service, councils and other parts of the public sector.

Bearing in mind that there are—as has been suggested—some good examples as well, do you think that there is enough demand, or desire, in the public sector to move more quickly to improve productivity, both for the people who work in the sector and for those who have to engage with it?

**Professor Wessels:** There is the public sector reform agenda; I was at the summit that was held a month or six weeks ago. I think that the sector is still driven by a public service ethos—the hard challenge is organisational change.

We have talked about shared services, for example. Years ago, I was working down in London just as digital was coming in and the web was mainstreaming, and we were looking at how we could bring together the different areas, develop partnership approaches and join up services to improve public sector delivery. Even then, it was difficult, and it is still difficult now. There are different operating systems and different priorities, and the way in which the finance flows is important, too.

There is definitely a willingness to change; the difficulty is in knowing how to change. There are a lot of challenges, and meeting those requires a holistic understanding. There are also concerns. For instance, I did a lot of work around mainstreaming telehealth. Although telehealth was seen as having real positives, there was a concern at the community health level, where the teams wanted to work proactively but telehealth meant that they had to be more reactive, because the

data that was coming through was not quite reliable.

There is, therefore, an underlying piece of work to be done to ensure that there is confidence in moving over to something that is more joined up. There is also the issue of accountability, particularly in health. Where is the accountability, and how can that be shown? There is a willingness to change, but there are real key challenges, and it is important to work on addressing those.

**Jamie Halcro Johnston:** That is very interesting. I recently visited Inverness prison, where staff were having to do all prisoner transfers by hand because the call system does not link in with the prison's system—it was interesting to see that.

I do not know whether Simon Pittaway and David Phillips want to cover anything quickly in that area.

**Simon Pittaway:** To be brief, some of the problems with public sector productivity are, in my view, downstream of a system that is operating beyond its effective capacity. As a response to that in the health sector, for example, we have seen the protection of front-line staff and services, which is good, but the counterpoint has been a reduction in NHS management capacity. That can work for a while, but there are problems.

As David Phillips alluded to earlier, we know that management is important for productivity across the economy, but if an organisation's management capacity is consistently eroded, issues will flare up at some point. For example, inefficient practices will start cropping up here and there, such as the system for booking transport that Jamie Halcro Johnston mentioned. The funding level and the funding mix definitely need to be looked at with regard to public sector productivity.

10:00

**David Phillips:** To follow on from what Simon has said, there is often a tendency to say, "Cut the management and we'll invest in the front line". That is a good soundbite, but it is not necessarily always best for service delivery.

Of course, we want to cut out unnecessary bureaucracy and management, and to streamline things where we can, but management is a key function. If we compare the health sector in the UK with other health sectors around the world, we see that our sector has a smaller share of administrative and management support than most of them. Over the past few years at least, we have seen a big increase in clinical staff that has not been matched by an increase in support staff.

Those clinical staff are, therefore, perhaps having to do more of the admin themselves, and we are not making best use of the skills of nurses and doctors if they are doing the types of tasks in which someone else could specialise.

I have one last point to make—in fact, I have two points. First, I think that there was, for a while, a bit of resistance, in particular post pandemic, to the idea that there was a productivity problem in the NHS. We had to bang on that door for a fair while, with the NHS pushing back. Once you have accepted the problem, that is the first stage in addressing it. I think that there is now an acceptance that there has been a bit of an unfortunate downward shift in productivity, and there is a focus on addressing that.

Lastly, although I think that there is an acceptance of the need to improve productivity and a desire to do so—and to improve outcomes, because public services would see it as less about improving productivity and more about improving outcomes for the people whom they are serving—it is also true that change can be difficult. In the future, as new technologies are applied, that will create new opportunities for workers, and better services, in some areas, but unfortunately it will probably mean that there might be less of a requirement for some of the traditional roles. The public sector sometimes struggles to adapt to changes, given the quite hierarchical and structured nature of the workforce.

One of the challenges for the public sector, therefore, is that, in thinking about the role of technology, whether it is in improving diagnostics or administration, it has to consider whether there is the flexibility in workforce and workstream planning to deal with that. That will be a big challenge as we move forward.

**The Convener:** I bring in Gordon MacDonald.

**Gordon MacDonald (Edinburgh Pentlands) (SNP):** Good morning. I want to widen the discussion about productivity levels and move away from talking only about the public sector. A number of factors influence productivity levels, so I am keen to understand what it is that Scotland does well, and where we face a challenge. I am aware that, over the past 15 years, Scotland's productivity has grown at a faster rate than productivity in the UK as a whole, and it is ranked third highest of the UK's 12 regions in productivity by the Office for National Statistics, but its rate is still 2 per cent below the UK average. That said, it is substantially better than Northern Ireland, at 13 per cent below the average, and Wales, at 17 per cent below. What are the factors that influence productivity levels in Scotland? What are we doing well, and where are the challenges?

**Professor Wessels:** That is a great question, and it is good to recognise where Scotland is doing well, in addition to its challenges. Scotland has advantages in its higher education and the level of education in the workforce. Its top 100 businesses are very good; it has key strengths in advanced manufacturing, in space and in specialised medicine, so it is world leading in key areas.

The challenges that we have found are, first, the inequality that exists in the skilled workforce across the different regions. As we know, Edinburgh does very well, but Glasgow, just down the road, does not do as well. There is a mix of skill sets and skills pathways, although in particular places there is innovation happening in fostering those pathways.

Scotland also faces an issue with health and health inequalities, with a high level of inactivity due to health. In addition, in the past few years, it has tended to invest in concentrated employment trends in low-value service sectors. The challenge is how to grow advanced manufacturing in digital tech. Scotland has centres of excellence, and the education is there and the skills pathways are coming through, but we need to bring that through to the workplace.

There is an issue with investment, too. In certain sectors, particularly for women in business, there is much less investment. There are quite a number of start-ups in Scotland, but we have found that there is an issue with scaling up; once businesses reach a certain level, support and investment for scaling up are important. We often find that the businesses that do really well sell, and they sell internationally, so we are not keeping that capacity and value in Scotland.

I could go on and say more, but I hope that I have addressed some of the issues.

**Gordon MacDonald:** Yes, and thank you for doing so. On your last point about scaling up, you said that a lot of start-ups are sold, possibly to help the company's growth. How much influence is there in that regard? A lot of headquarters have been lost from Scotland, and we lost our stock exchange in the early 1970s. How far has that been a factor? Are companies being forced to sell, because they are struggling to raise finance?

**Professor Wessels:** I cannot answer that with a clear yes or no, but, in our work with companies, we have found that a lot of work is being done by the Scottish National Investment Bank and Scottish Enterprise to ensure that people are aware of the new opportunities for investment. There has been a drop-off, but other organisations are now coming in to foster that investment. A lot of that is focusing on the triple bottom line and that type of approach, which aligns well with other

aspects of what is happening and the ways in which firms are developing.

Some of Scotland's most successful firms hit a real financial pressure point. One example—I feel that I am just giving examples, but they can be quite useful—is ACS Clothing Ltd, which hit a pressure point, but which had, almost without realising, gone down the circular economy route. That encouraged investment at a good level of return, and the company has really grown.

I cannot answer your particular question and say whether that was the issue, but new types of investment need to come through and companies need to be aware of that. That is beginning to happen, but it is slow.

**David Phillips:** On the first question, there are a number of factors relating to why Scotland is doing well. As Professor Wessels has said, skills and, in particular, higher education have been important, but there is a question whether that is being sustained.

In recent years, we have seen some degradation in Scotland's performance, not only in its PISA—programme for international student assessment—scores but in the rate of progression to higher education among those with a low socioeconomic status background. That rate has, in recent years, gone up by quite a bit more in England than in Scotland, although the picture here is a bit more complicated, because of the different routes by which people go into higher education.

There is also a diversified mix in Scotland's economy; compared with Wales, for instance, the economy in Scotland was never as concentrated in one industry—or a few—and that has had benefits in the long term. Scotland had a diversified economy to start with, and it has been able to maintain and expand on that, which has been helpful.

There are agglomerations in particular areas; historically, there has been an agglomeration of finance in Edinburgh, and an agglomeration of energy in Aberdeen. There has also been an agglomeration of high-tech stuff just to the west of Edinburgh. Over time, Glasgow has been improving its position somewhat; it still lags behind Edinburgh, but the gap has narrowed a bit, as you can see when you go to the two cities and compare them with what they were like 20 years ago.

Another noticeable feature in Scotland is that, as I mentioned earlier, its rural areas do reasonably well compared with other rural areas of the UK. I do not know why that is. Is it because those areas in Scotland also have more urban activities within them, so their economic make-up is not as rural, or is it because they have high-

value rural-type businesses such as whisky and agritourism? I am not sure, but if I were elsewhere in the UK, I would be saying, “Look to Scotland and its rural areas.” There might also be scope for some rural areas of Scotland that are not doing quite as well—for example, Argyll and Bute and the south of Scotland—to look at what is happening in rural areas in central and northern Scotland.

**Gordon MacDonald:** How important is population growth to productivity?

**David Phillips:** I do not think that population growth per se is important at all; however, particular kinds of population growth and decline can be important. An in-move of people who are highly skilled and can complement high-skilled employers can help boost productivity. Some of that is artificial, because if all it means is new people coming in, that does not necessarily support the local population.

Where there is population growth and there are newcomers, but there is not enough housing development, which means that housing prices go up, the existing local population tends to get hurt. Research from America suggests that the living standards of a low-paid person in one of the superstar cities such as San Francisco are actually worse than if they were living in one of the cheaper areas. If no housing gets built, incoming high-skilled jobs that simply boost aggregate productivity can actually be bad for people.

Whatever your strategy is—and especially if it involves bringing in some new high-tech jobs and skilled workers—you need to ensure that complementary infrastructure, particularly housing, is put in place so that the budgets of the existing population do not get squeezed by rents going up. Of course, we then see a two-tier effect; home owners in an area, even those who are quite low paid, still gain, and then they sell up and move out. It is those who are trapped in rental accommodation, particularly in the private sector, who lose out if you do not build the housing to go alongside economic growth.

**Gordon MacDonald:** I will put the same questions to you, Simon.

**Simon Pittaway:** Professor Wessels and David Phillips have covered a lot of the aspects, so I will just say a bit about cities. David mentioned rural areas, but cities are one of Scotland's strengths. Edinburgh and Glasgow do really well in comparison with basically any other medium-sized city in UK, apart from London, and that is a key strength in Scotland. As for why that is the case, we have highlighted historical strengths, especially finance in Edinburgh, which has put the city in a particularly good position to take advantage of the transition to a services-led economy and to build

out the financial sector across the UK and around the world.

We know that other things tend to be associated with high-performing, high-productivity cities, and Edinburgh and Glasgow both have them. They do pretty well on public transport infrastructure, for instance, especially in comparison with cities in northern England, and the Edinburgh tram extension has built on that.

Another factor is culture. Having looked at different cities around the world that have successfully made the transition to a services-based economy, we see that a consistent theme is being an attractive place for high-skilled, particularly graduate, workers to live. Transport is part of that, as people want to live close to the centre and not be particularly reliant on cars to get around. Having a cultural footprint is important, too; Edinburgh is obviously great for culture and, increasingly, Glasgow is, too. Those two cities are both very good assets for Scotland's productivity and performance.

**Murdo Fraser (Mid Scotland and Fife) (Con):** Good morning. The productivity puzzle, which Lorna Slater mentioned, is not just having an impact in the UK and in Scotland; it is a much broader issue across western economies. Are there examples from other countries that are doing better than we are?

I might start with you, Simon Pittaway, as you referred to some of the international studies that you have done. Recently, Sir Tom Hunter, one of Scotland's leading business figures and entrepreneurs, said that Scotland needed to be more like Singapore. Is Singapore doing any better than we are, or are there examples from elsewhere in the world that we can learn from so that we can implement some of what they have done in order to tackle the productivity puzzle that we have here?

10:15

**Simon Pittaway:** Singapore is a difficult comparison point. We are geographically very far away and culturally very different, and the economic context is also very different with regard to size and location in the world economy. Instead, we have looked a bit closer to home; we do not need to be so radical and say that we must be like Singapore in order to make some pretty chunky improvements.

On productivity, the US in particular is at the frontier of the large economies, but France and Germany have opened up a pretty big gap between us and them. If we compare our GDP, or GDP per capita, figures with, say, France, we see that the gap is not huge; on productivity, however, the gap is much larger than you might think. That

is because France has spent some of its higher productivity on working less—and I come back to David Phillips's point that that is one of the benefits that you can get from higher productivity.

When it comes to explaining some of those gaps, our research suggested that, with France in particular, the biggest single driver of the gap is the amount of investment that has been made in the past and the amount of capital that workers have. French workers have about 40 per cent more capital to work with than British workers, which is a big explainer.

There are some particular weaknesses with British investment: we do particularly badly on physical investment, and we have seen a drop-off in research and development and corporate investment, particularly since the financial crisis, although it did continue through the pandemic. There are definitely some comparators closer to home—just across the channel, in fact—that are doing much better than us on productivity, and we have a good evidence base to suggest that we know some of the drivers in that respect.

**Murdo Fraser:** Thank you. Maybe I can ask Professor Wessels the same question. To open it up a bit, the Productivity Institute published a report in January on comparisons within Scotland. In that report, you suggested that Glasgow underperforms on productivity compared with comparable cities. Perhaps you could answer the question about international comparisons but also talk about why bits of Scotland are not doing as well as other bits.

**Professor Wessels:** What Simon Pittaway said is really helpful. I am thinking through the question about Singapore, and one way to look at it might be to consider the strengths in Scotland. We can look at the examples of France and Germany, and fair work is really important. We can also look at Denmark and the Netherlands—countries of comparable size—and look at what they are doing and what Scotland is doing. We need to think about strengths and emerging areas of Scotland. Existing strengths, such as finance and services, are really important, and those are well established. However, there are also aspirations in certain areas. For example, Edinburgh wants to be a data centre for Europe, so looking ahead to the data economy is really important. In Aberdeen, we know that fossil fuels are going down, but we can look at renewable energy, space and so on. We need to look at the strengths in Scotland.

To bring it back to Glasgow, it is world leading in precision medicine, so we need to look at particular sectors and at where those strengths are. Often, there is quite a long history in developing that capacity and capability. There is also the aspect of being an attractor. Simon Pittaway and David Phillips have talked about

certain sectors and businesses attracting the high skills and being attractive.

On why Glasgow is not performing as well as Edinburgh with regard to advanced manufacturing and specialised health, it has really high-end, leading manufacturing and innovative businesses. It has a very good university—I would say that, wouldn't I? Thinking about it versus Edinburgh, we can see that Glasgow has a similar infrastructure and good transport systems, but it has lower levels of good health, so there are more people who are economically inactive due to poor health. It also has greater inequalities as a de-industrialised city, so it brings through people who are living in less affluent areas who probably have fewer opportunities to engage in or think through pathways into higher or further education. We talked about intraregional aspects, but that is, if you like, the shape of the city, so it is about overcoming the legacy of de-industrialisation as a post-industrial city and having factors to draw in the talent.

Talent is vital, particularly as we move to a more data-centred, artificial intelligence-centred or digital future. Dame Wendy Hall argued that, for any kind of AI-enabled economy, we must have diversity in the workforce to ensure that AI is responsible and can address the diversity that it draws on. There is huge potential in Glasgow, but it is untapped at the moment. However, the latest figures from Glasgow City Council, which came out only last week, show that is improving.

**Murdo Fraser:** Thank you for that very helpful response. However, what you have just said about Glasgow could surely also be said about other major industrial cities in the UK, such as Newcastle, Liverpool and Manchester. How does Glasgow compare to them, and is there any explanation for any difference in outcomes?

**Professor Wessels:** If we compare ourselves to Liverpool and Manchester, we see that Glasgow is doing a wee bit better. However, Manchester and Liverpool have taken different approaches to dealing with those problems. I need to look through my papers for this information—I cannot remember it off the top of my head. They have often taken much more of a regional governance approach, very much like a manorial approach, and it is more about how they have brought that together.

They have also fostered much more investment at the regional level and have understood that more regionally. This is anecdotal, but it is interesting that, when we look at how Manchester is developing, we can see that it is at risk of gentrifying and growing very much at the centre. It relies on a lot of external international funding, and some areas are left behind. How sustainable that

growth actually is might be about inclusive growth and bringing people through.

Simon Pittaway talked a lot about the creative industries. Liverpool is rebranding itself very much through its creative sector and is invested in museums and so on, but whether that will attract high-value advanced manufacturing at a level that will improve productivity is unknown.

**David Phillips:** We should not downplay Glasgow too much. As both Professor Wessels and Simon Pittaway said, it compares relatively well to secondary cities elsewhere in the UK. I am thinking that the only ones that do better—Bristol, for example—are in the south of England. We also should not forget the geography of Glasgow: Glasgow City Council tends to look worse because Glasgow's richest suburbs are not in the Glasgow City Council area—they are in East Renfrewshire and East Dunbartonshire—whereas Edinburgh's richer suburbs are within the Edinburgh city boundary.

When we look at the sub-regions of Scotland, we can see that, in eastern Scotland—the Lothians, Fife and Angus—median earnings are 102 per cent of median earnings in the UK as a whole, so just above the average. In west central Scotland, which is basically the area around Glasgow, they are 101.5 per cent of the UK average, so Glasgow and Edinburgh have very similar median earnings. Mean earnings in both cities lag behind the UK as a whole. In eastern Scotland the figure is 94 per cent, and in western Scotland it is 91 per cent. That shows that the gap is not in typical pay—it is at the very top. That is perhaps a bit more noticeable in the area around Glasgow than in the area around Edinburgh.

However, we should not downplay the success of those areas. The secondary cities of the UK can look to Scotland for lessons on productivity. The big improvement in Scotland's productivity took place between 2000 and 2010 or 2011, and in the past 12 or 13 years there has been a slightly cyclical pattern of treading water.

**Murdo Fraser:** I will ask you the question that I started with, about international comparisons. Are there other countries—Singapore or anywhere else—from which we could learn some lessons?

**David Phillips:** That is not really my area of expertise, but I echo the point about looking at more comparable countries, rather than Singapore, for general lessons. That does not mean not looking at Singapore at all—one can look at the way in which it operates its social security system, which is quite different from the UK's; there could be some lessons, positive and negative, to draw from that. However, I would say that there is more scope to learn from western

European countries, and maybe from Canada and the United States.

I also echo something that Simon Pittaway said: we, in the UK, often do not realise that, on many fronts, France performs really strongly. On productivity, France does better than Germany, for example. The Germans get a higher output because they work a bit more than the French, but, in terms of hourly productivity, France is not far behind the US—at least, that was historically the case. We should, therefore, look to our Gallic cousins and the auld alliance.

**Murdo Fraser:** Maybe we should drink more wine and eat more cheese—is that what you are saying? [*Laughter.*] Great—thank you.

**The Convener:** I will bring in the deputy convener at this point.

**Michelle Thomson (Falkirk East) (SNP):** Good morning and thank you for joining us.

David Phillips, as you are still on screen, I will keep you there. We have talked a lot in general terms about productivity, and I think that we all understand the factors that drive it. However, I am thinking about relative weighting within those factors—for example, economic multipliers in major infrastructure and housing projects. What is your sense of the relative weighting across all the factors that influence productivity? What would give productivity a significant boost?

**David Phillips:** I do not have a particularly strong answer on that, but I will give some high-level suggestions for areas that I would consider in more detail. First, I would look at intermediate-level skills. Scotland does relatively well in comparison with the rest of the UK, but is that translating into job opportunities for people with those skills? Alternatively, does the fact that we have quite a university-focused education system in the wider UK mean that the people in Scotland who have those skills at the level between high school and university are falling through the gaps because employers do not know how to handle them? I would look, therefore, at whether Scotland's intermediate skills are translating into outcomes for those people.

Secondly, I would look at management skills. There is a focus in the NSET on management. I am not sure whether the initiatives in the NSET will actually deliver, although I am not saying that they will not—we would need to evaluate them. Nevertheless, it is good to see a focus in there on management, because that is often overlooked when considering productivity.

Lastly, we should think about how the tax system can impact on productivity. That was not in the NSET—it is another thing that is missing. We have seen the tax system evolve across the UK,

and in Scotland in particular, in ways that can reduce productivity. In Scotland in particular, we have seen a big increase in the reliance on the equivalent of stamp duty land tax—land and buildings transaction tax. LBTT is a tax that basically makes it harder for people to move to get jobs or for businesses to get better premises, and it gums up the property market.

There are better ways to raise revenue from high-value properties, if that is what we want, than by putting a tax on those properties when they are transacted. Although tax is probably not the single biggest factor that has an impact on productivity, it is one of the factors that is most directly under the Government's control—it is quite straightforward for the Government to pull that lever.

10:30

Looking at the tax strategy, which was published earlier this year, and thinking about how to align that with the economic growth strategy is an important route forward. The tax strategy has a section on economic growth, but that is about how we grow the economy to boost taxes. We also need to look at it the other way round, and consider how we can reform taxes to support economic growth and productivity in the context of other objectives around tackling poverty and raising money for public services. There are better ways to raise revenue than through the ways that Scotland is currently doing it, just as there are better ways to raise revenue than in the ways that England and Wales are currently doing it.

**Michelle Thomson:** Before the other witnesses come in, I have another question for you. You referred to the use of LBTT. Is the current situation not simply a function of the fact that there are hardly any taxes that Scotland can raise? I completely agree with you about the need to increase the money flowing through the economy, but in some respects, is not LBTT just the low-hanging fruit that the Scottish Government can utilise in the absence of other taxes?

**David Phillips:** We know what happened when Adam pulled down the low-hanging fruit and ate the apple. LBTT is, unfortunately, somewhat of a poisoned fruit—it damages Scotland's economic performance, just as stamp duty land tax does down south; it is just that Scotland has gone a bit further.

I agree that there is a limited range of tax powers for Scotland, and one can see that if certain other powers were devolved, you could do more things and think about the system as a whole. However, property tax is one area where the key levers are basically devolved to Scotland: we have LBTT, council tax and business rates. I hope that, with the engagement on council tax, we

will now see a bit of movement towards considering how we might think about the property tax system as a whole. However, for many years, we had a freeze on council tax, which is probably one of the least economically damaging taxes that Scotland has. As in England, we saw 33 years of inability, or unwillingness, to act on revaluation, and not much movement on the progressivity of the tax.

In general, one can see that, with more tax powers devolved to Scotland, there would be more scope to do more on, say, income tax and the different treatment of employment, self-employment and small businesses, or more to encourage investment. With property taxes, a lot of the levers are already in Scotland—Scotland needs to have the will, and the confidence and courage, to make use of them to forge a system that can be both fair and more efficient. That is the fruit that should be grabbed, not the tempting but dangerous fruit of LBTT increases.

**Michelle Thomson:** Bridgette Wessels might like to come in next. In opening out the conversation, I am interested in the historical impacts of low investment in capital projects and infrastructure. That has been a historical issue in the UK for 30-odd years. What are your thoughts about how that has ultimately affected productivity, given that we know that infrastructure projects, even if they are temporary, can often turn things around a bit?

**Professor Wessels:** You are really getting me to think at different levels.

With regard to infrastructure—to follow on from your question to David Phillips—we have just finished a project on purpose in business and purpose-driven approaches. What we have found in successful businesses goes back to the question about why we need productivity. In those companies, there is a purpose-driven approach and they are developing the use of their resources in a much more effective and efficient way, and, in thinking that through, they are also innovating.

Why does that lead on to infrastructure? If we are thinking about the ways in which companies are becoming more productive, not just in their bottom-line profits but in skilling up the workplace and investing in the community—that can be local, but it can also be international in scale—we can see that it is about facilitating a trusted, resilient ecosystem that is sustainable. It involves thinking about infrastructure in terms of ecosystems and what needs to join up where.

Rather than simply saying, “Right, we’ve got all this old infrastructure—we’re going to chuck it out and rebuild from scratch”, it is important to address the tricky problem of the legacy systems and how to foster change in a sustainable way that

is informed by the needs of businesses as well as local place. That involves thinking more strategically.

Again, it goes back to that leadership approach and management issue. The skills involve not only learning to do things routinely and mechanically but also facilitating that understanding of what needs to join up, how to connect it and how to foster change. The problem with past infrastructures is that, once you have built something, it soon gets outdated; then, it is all set in stone and you are not flexible and adaptable enough to meet changing markets, whether locally, nationally within Scotland, in the UK or internationally. It is about thinking about infrastructure as an ecosystem and understanding how to do that.

We are at a moment of change with digital and AI and there is a lot of hype around that, but it is important to think through how you develop and foster a really good set of data that is reliable for intelligence-led businesses and the public sector and to understand how you join up different aspects of an ecosystem to gain advantage from that ecosystem.

Let us think about the work of CENSIS with the Highlands and Islands, for example. A lot of very small businesses there would really benefit from digital, AI infrastructure but the return on investment is too long for any of them on their own. However, if you look at that as an infrastructure and enable that clustering—which then gives you a basis that those businesses can adapt to their specific needs—you have the magic bullet. It is about thinking about infrastructure slightly differently, as an ecosystem.

**Michelle Thomson:** Thank you. Simon, do you have any final comments on the range of questions that I have asked?

**Simon Pittaway:** I will pick up on a few things. On infrastructure spend, it is important to keep in mind that it is not only the level of spend that matters but also its volatility. The National Infrastructure Commission looked at that issue in quite a lot of detail at the UK level and compared us with Germany. Rail electrification is a classic example: the Germans electrify a fairly constant number—I think that it is about 300,000—of kilometres every year, whereas we have big spurs of action, then nothing for a few years and then perhaps a bit the year after. That means that the infrastructure and the ecosystem around it is unable to operate in an efficient way.

If you know that there will be a steady demand for your services, you can make investments in your processes and know that they will pay off, whereas we do not have that certainty in the UK, so we are unable to make those improvements—

everything is a bit stop-start and there are always various costs around the frictions of getting started again. When you think about infrastructure, whatever it is, having a set credible plan for what you will do over a number of years can give you better results than saying that you will just spend money in the short term, without giving people the certainty. That is one thing to keep in mind.

You also asked about what gives you the best bang for your buck, if I can paraphrase it that way. The Resolution Foundation did some research with empirical studies that looked at the evidence across advanced economies. What struck me was that the variation in the estimates is huge, which reflects not only the fact that there is noise in the data and that those things are difficult to estimate but also that there is genuine variation in pay-off.

Having local knowledge about what bit of investment will unlock the most things is key. You cannot really know that from the outside, but it is driving some of those differences. People with the right in-depth knowledge of their local economies making decisions at the right level is key to getting the most bang for your buck. It is much more nuanced and case-specific than saying that, for example, spending on trains will get you more than spending on housing or roads.

**Michelle Thomson:** Okay. Thank you very much.

**Willie Coffey (Kilmarnock and Irvine Valley) (SNP):** Good morning, everyone. I wonder whether I could continue to lock you into the discussion about Scotland's regional imbalance. I am thinking, in particular, about my area, Ayrshire, compared with other parts of Scotland, principally the east and the north.

I have been a member of the Parliament for about 18 years. All that time, the indicators in my Ayrshire community—Kilmarnock and Irvine Valley, specifically—have lagged behind Scotland as a whole in earnings, health inequalities and poverty. Bridgette Wessels talked about strategies—every now and then, new ones seem to pop up—but, despite being awash with them, the picture, by and large, has not really changed in all the time that I have been here.

I want to ask for your reflections on why that is. Do Governments know how to close those gaps? In the current strategies, such as the NSET, do you see the opportunity to reduce regional imbalances and bridge the gap that is clearly there and has been for many years, not only in Ayrshire but in places such as Colin Smyth's area, Dumfries and Galloway?

**Professor Wessels:** It is a very tricky problem, because health, social and economic inequalities become embedded. You have all these factors—an ageing population, ill health—that, to some



extent, can limit aspiration, and they also limit inward investment.

However, there are some good examples of third sector organisations, such as the Wise Group here in Glasgow, that can start to bridge the gap for those people who might feel that they have less opportunity but have enormous potential. It is a slow process, so you have to think of the short, medium and longer term. Simon Pittaway and David Phillips have talked about how you can start to learn how to configure and develop policy on the ground that can improve health outcomes, such as providing good housing and health support that is targeted at particular needs that are based on a place's health inequalities.

It is about fostering innovative career pathways. There are examples of internships and apprenticeships that are of specific value, which can bring young people through into local businesses. That has to be combined with finding ways to invest in businesses and make places look attractive for investment. It is a huge problem, but the infrastructure is in place in Scotland to do it. It is about understanding where the particular blocks are and how you ease that process into place.

Some of that will be a longer project; other bits might involve considering when you can make such an intervention. What can be provided to improve employment opportunities for people with certain disabilities and for women? For example, working from home and digital working in all its different forms are much more attractive to people with disabilities and women. There is probably a lot of talent there, so you could look at how you foster inclusion in the workplace.

10:45

You need to link up schools with local businesses. In Scotland, there are examples of small businesses that have an internship academy that skills up young people in workplace socialisation, norms, practices and so on. There are examples where that has been very successful.

Thinking about young people, another example to consider is that apprenticeships often last for two years. Sometimes, young people find that it is not for them after six months. How can we modularise apprenticeships so that people can build different skill bases? That is not so good for the businesses, but it might build capacity and capability among the younger population. Sorry—I cannot give a magic bullet on the issue.

**Willie Coffey:** Thank you, Bridgette.

Why have places such as Ayrshire, my part of Scotland, lagged behind Scotland as a whole for

such a long time? What do we need to do to turn that round, and do you see the opportunity to do so with the strategies that are in front of us?

**David Phillips:** I do not have a great insight on Ayrshire, in particular. However, we know that regional inequalities are very long lived. If you look at which areas had low wages and low employment 10, 20 or even 30 years ago, you see that they are pretty similar now. Between the 1960s and early 1990s, there was quite a big change due to deindustrialisation. Ayrshire is one area that suffered from elements of deindustrialisation and, unlike some cities that reinvented themselves as service economies, at least to some extent, it did not have the agglomeration and size to do so.

Unfortunately, one reason why we have not seen success is that we would not expect an economy to have all areas performing at a similar level, and we would expect there to be some economic inequalities between places. In that context, though, it is important to ensure that there are public services that support people by addressing their needs and ensuring that they have opportunities to access education, skills and so on, which involves having a redistributive local government funding system.

There has probably also been a bit of policy churn over time, because of a proliferation of short-term strategies that do not seem to work in a political timeframe and then get replaced with things that are a little bit different. At a UK level, we have seen a bit of back and forth—I am less sure whether this is the case in Scotland—about whether the priority should be cities or towns, and it flips between the two depending on where the politics is when, actually, it should be both but in different ways. Towns and cities have different roles to play in the economy, and putting a Government hub in a small town is probably not a catalyst in the same way as it would be in a city, where there can be some agglomeration effects around it.

One thing that is noticeable about the NSET is that, although it talks about regions, it has not got any targets or policies that are specifically related to them. One good thing about the previous UK Government's levelling up white paper was that it had quite a clear sense of what the issues were, so it had strategies and measurable targets for geographical inequalities. Whether they put in place resources and whether the will was behind it to address those things are other questions, but the paper did identify and create targets.

That is not the case with the NSET, which has a target for earnings growth but no target for earnings inequality across places. There is a recognition that you need to reach for an economic strategy but less of an idea about

whether the strategy gives cities a different role from those of city hinterlands and rural areas. Although I am not calling for another strategy—as has been said, there is a proliferation of strategies—fleshing that one out, and what it means for regional inequalities, a little bit more is an important next step. At the moment, there is nothing in the NSET even to hold the Government to account on, let alone any strategies that relate specifically to narrowing gaps between different parts of Scotland.

**Willie Coffey:** Simon, do you have any different ideas to share about how we might look forward to dealing with the regional imbalances in my part of Scotland?

**Simon Pittaway:** We have talked a bit about agglomeration effects and the fact that highly productive sectors tend to cluster in cities. There is some research to suggest that that is particularly important for the service sector. As the UK economy has deindustrialised and moved towards a service-led economy, those agglomeration forces have got stronger, so you are almost fighting against the tide because the structural change in the economy, if left to its own devices, might be expected to widen some of those gaps. The fact that the gaps remain persistent is not necessarily surprising, given the structural changes that have happened, which speaks to why the challenge is so difficult to address.

I echo David Phillips's point about what the NSET could do more of. You should at least have a clear idea in your minds of what success for Ayrshire would look like. We have spoken a lot about productivity, and having productivity in a region is an indicator of the number of high-quality jobs and the level of what Professor Wessels called the "aspiration" that people can have as they look at the area around them. What often matters in people's lived experience is their income. Success for Ayrshire might mean people growing up and having the skills and transport links to be able to access higher-paying jobs in Glasgow, rather than having those jobs move to where the people are.

The wider question of where the NSET could be fleshed out a bit more in regard to the regions leads to a specific question about what success looks like for different regions, given that we know that we are not going to have an Edinburgh or Glasgow in every part of Scotland.

**Willie Coffey:** You have introduced the thorny subject of transport links. For example, young people in Ayrshire who want to work in Scotland's capital city of Edinburgh face a journey of two or more hours and have to change not only trains but railway stations in order to travel a distance of about 65 miles, which is just ridiculous. Is transport infrastructure a key driver? It causes

depopulation in my part of Scotland, where people will vote with their feet and move away rather than make that kind of journey every day to work in Scotland's capital city. They just do not do that and they do not commute.

**Simon Pittaway:** I grew up in the north-west of England and am well acquainted with making extremely long and arduous railway journeys to cover not much distance.

You know your constituents better than anyone. You may think that people do not necessarily need to have highly paid jobs in the town where they live if they have easy and convenient access to well-paid jobs that are not that far away as the crow flies and may think that that would fulfil their sense of pride in their local area. That is what we are skirting around when we talk about regional inequalities.

It is definitely true that transport infrastructure could be part of the solution, but there are trade-offs. Investing in intercity transport links might mean investing less in intracity links or might mean investing less outside the transport sector. I have no doubt that better transport links between Ayrshire and Edinburgh would improve labour market outcomes for people in Ayrshire, but that should be weighed up against the fact that people are facing other problems in Ayrshire and elsewhere.

**Willie Coffey:** I have a final question. We are at the beginning of, or on the cusp of, an artificial intelligence revolution. Could that be an agent for change by reducing regional inequalities in Scotland, or is it more likely to make the wealthy parts of Scotland wealthier and should we make a concerted effort to avoid that?

**Professor Wessels:** As with all technological change, there are winners and losers. There are centres of strength such as Edinburgh and London. We have got those clusters—those accelerators and catapults—but there is huge potential for community wealth building and developing anchor organisations in other areas, where AI-supported work can be fostered. We could think about working in a hub-and-spoke model. If we have a centre of excellence in Scotland, how do we get satellites out to places such as parts of Ayrshire and foster upskilling of AI skills?

Some of those skills will be quite routine, but there will be an awful lot of quite creative aspects to the new economy as it emerges. Some jobs will be automated, so some jobs will be lost, but some of the more creative and data-centred jobs will be there. You could look at the ways in which businesses might run on that hub-and-spoke model. It is about fostering good relations with leaders so that you gain intelligence about the way

in which AI is going in order to develop capacity and capability in your area and ensure that, even if you are not leaders, you are in the next tier of adopters who can move quite quickly. It is moving, but it is doing so quite slowly. Positioning yourself strategically and linking to those centres of excellence might be one way to ensure that you do not get left behind in that space.

We have just finished the minimum digital living standard project for Scotland. In order for different areas to keep up, it is important that there is good digital infrastructure that is secure, robust and resilient. There is a huge amount of potential in young people. They are the digital generation, if you like. They sometimes cannot go behind the system, but they think very creatively about the way in which data is visualised and worked. It is important to build on that, and to build on that potential in schools early on. Linking in to the hub-and-spoke model would certainly help to mitigate wider division.

**David Phillips:** I would not want to make any sort of long-term predictions about the future economic development of AI. I am in two minds about whether it is a different type of technology from previous technologies. Past technologies have always created more interesting jobs for humans to do. Is AI different, because it is quite an intellectual issue?

I would emphasise what Professor Wessels said. There will be winners and losers, and it will be important to have a strategy to help losers to adapt, for example an emphasis on retraining, and perhaps retraining and reskilling in later life, which the UK traditionally has not been very good at. That links up to the fact that we have an ageing population. A noticeable absence in all strategies is consideration of the combination of retraining and ageing. How do we design training so that it is suitable for people in their 50s and even their 60s? With longer working lives, that is particularly important for areas that have seen more of an outflow of younger people.

What I am about to say might be slightly controversial. We should probably accept that there will be a relative decline in the population in some areas. Economic geography changes over time. The areas that are most populous in our country now are not the same as they were 100 or 200 years ago. People move to where there is economic opportunity. What you need to get right is to ensure that people do not get stranded in communities that are falling behind.

11:00

That means investing in supportive public services such as health and social care, so that older people who stay in those areas do not find

themselves without support, and so that young people find themselves with opportunities if they want to stay in the local area via those health, education and other public sector roles; there will also be private sector roles—however, if they commute, or even move away, they will be able to access jobs because you have invested in good-quality education in more remote areas.

That is an area in which technology can play a role. There has been quite a big change in the past few years. Traditionally, it was hardest to get doctors and teachers into towns—into expensive cities—because of the cost of living. Now, however, it is much easier to recruit doctors and teachers in urban areas, and the more rural areas struggle to get them. Can technology such as AI provide more access to more courses and more treatment options in local communities such as Ayrshire or—perhaps even more so—the Highlands and Islands?

**Simon Pittaway:** One thing to remember is that the UK is not amazing at adopting technologies. It was good to see in the NSET a specific focus on supporting the roll-out of digitalisation. We should not put the cart before the horse and get worried about the downstream impacts of widespread rapid AI adoption, because history has said that, often, we are slow at such things. It is about focusing on helping businesses and equipping them with the skills to make those changes; having workers able to adapt to them; and then, as David Phillips said, thinking more generally about the changes that are happening and what we can do through the public sector to ensure that the transitions that they bring about are smooth and feel fair.

**Jamie Halcro Johnston:** That is interesting, and I want to expand a little on that. However, before I do that, I will mention your responses to Willie Coffey's questions about transport infrastructure. I do not need to tell you that transport infrastructure is a major issue in the Highlands and Islands. Although we would like better connections, making some of the connections that we have more productive—for example, through reliable wi-fi on them—might be a good place to start. You would have thought that that could be rolled out far more cheaply and quickly than some upgrades. That was just a Highlands and Islands point. I will not mention connections such as the Corran Narrows ferry, because that would only wind up my colleagues.

What I really want to talk about is digitalisation, which involves so many areas. Professor Wessels made a point about clustering—about the need to bring different groups together because, perhaps, small businesses do not have the ability to do such work. To take that to the next level, that appears to involve a national approach.

When I was a member of the Finance and Public Administration Committee, it visited Estonia to look at work there. The people there have put pretty much everything online. As I remember from the many meetings that we had, which were absolutely fascinating, they created a central framework of parameters and security—the rules, essentially—then allowed different parts of their public sector and their economy to add to that, working within those rules.

Would you like Scotland to take such an approach? Would it be feasible for us? What benefits could it bring and what risks could it have?

**Professor Wessels:** Years ago, after the Baltic states gained their independence, they rebuilt their economies on the back of a policy of what was then called an information society. I think that that was backed with money through the European Union. They are small countries, and the legacy systems were not there.

Some early lessons were learned in Europe. In making that digital shift, we learned what the issues were and how to do that. Those lessons were on many issues, such as organisational change, digital inclusion and knowing how to articulate the needs for a particular technology and embed it, as well as accountability and security, which are absolutely vital. Those states were able to take those lessons and innovate quickly because there was no legacy system. They had a joined-up sense of what was needed and how to build the infrastructure.

A similar but much smaller example—again, this goes way back—comes from London. When I was working in the London Borough of Newham and across London, we developed something that was called easy connect, which was about easy movement, and that then went out to other regions in England. For digital to work, we need interoperable digital infrastructure that can connect and leverage the resources in it.

How do you do that? You need to understand the basis of what the infrastructure looks like and how to make it secure and resilient, as well as increasingly sustainable. One key factor with AI is sustainability, because it is going to take an awful lot of energy. How do you then have a link from that so that different companies, businesses and public sector or third sector organisations can adapt and fit and fix it into their organisations?

The fitting and the fixing are not just about technology; they are about understanding the economics of the service. For example, in Newham, we developed local service one-stop shops. We looked at the price of paper, face-to-face consultation, phone calls and digital self-help. We worked through the economics of that, and

through that identified what technologies to use and when, in order to deliver an efficient service.

There is a need to understand nationally where the investment needs to be. There is also another question. The universal provision of telephones up in the Highlands and Islands was done because there was a policy that, although there might not be a business case, the provision was needed. There should be thinking about a universal policy for digital to be embedded across Scotland, including in the Highlands and Islands, as an infrastructure. You should build the security and resilience within that and then enable businesses and the public sector to articulate their needs in terms of its best use. That is possible.

**Jamie Halcro Johnston:** That is really interesting. In Estonia, people in the ministry responsible spoke to us about the procurement process and how they do procurement. In this country, lots of organisations seem to come up with a need, go out to tender for a bespoke solution and then provide that solution but, invariably, it goes wrong or does not quite work. In Estonia, people work with potential tender companies before putting something out to tender. They go through all the problems first, and then only when they have a workable solution do they go to a tender. Could or should that be done here? Is it being done in some cases?

**Professor Wessels:** That is absolutely essential. Going back a long time, I did some work on e-government in England and Wales. Local authorities found that private sector IT suppliers did not really understand the needs of the public sector, and the public sector did not really know how to articulate those needs. That is when you get the risks and the failures.

An approach that involves more co-construction and co-design can be taken. Sweden has been very good at that. It is a good place to look at as an example of how to co-construct and co-design digital infrastructure for a particular place.

Procurement is absolutely vital—we really found that.

**Jamie Halcro Johnston:** David, do you want to come in?

**David Phillips:** I do not have much to add. I agree that, in the procurement process, there can be issues with specifying what is needed and with the understanding of that.

Elements of co-production can be helpful. However, we need to design a system that avoids capture by particular important suppliers, so we still need to be mindful of the risk of corruption. No matter what the arrangements for a co-production approach are, there has to be open access and proper scrutiny not just by Government but by

external parties, to ensure that there is not inappropriate capture of such relationships.

**Simon Pittaway:** I have nothing to add on that one.

**Professor Wessels:** That is absolutely crucial, because there is a power issue. Years ago, Croydon Council took an outcomes-based approach. Rather than looking only at the contract that it had with information technology suppliers, it considered outcomes for productivity, because the aim was not only about putting the kit in and looking after it. Looking at the contract is important, as is being careful that the technocrats do not get hold of the power in the relationship.

**Lorna Slater:** I will move on to questions about tax powers and fiscal powers. I am curious about whether you feel that there is an alignment between the intentions of the Scottish Government in the NSET and the decisions that it makes in the budget. When scrutinising the budget, I find it hard to understand how it contributes to the NSET, but maybe you have more insight into that.

**Professor Wessels:** That is not my area of expertise, so I will hand over to someone else.

**Simon Pittaway:** It sounds like a question for David Phillips.

**David Phillips:** Yes. To be fair to the Scottish Government, I would not expect the budget to list all the strategies to which each of its policies and spending announcements link, in part because there are so many strategies across the Scottish public sector, as we have just discussed.

However, it is a little bit disappointing that, although the NSET focus reports are an opportunity to link back systematically to budget decisions that have been made and to link back to the tables of priority actions and priority areas, the formatting of the NSET updates is designed almost to obfuscate rather than illuminate where progress has and has not been made on the strategies. The updates could use the same format, boxes and headings and could include a narrative list and any funding commitments or spending amounts.

When I looked at the NSET progress report and then back to the NSET, a link could be seen between the two, but it was not made as easy as possible, and it certainly did not link back to the budget, as Lorna Slater said. I am not sure that the budget document is the place to make such links, because it is already quite long, but there is scope to put more information in a document alongside the budget or the NSET review.

**Lorna Slater:** My next question is about tax powers that are devolved to the Scottish Government. I am interested in your thoughts on how those powers, as well as revenue raising by

local authorities, can be used to close regional gaps, tackle inequality and improve productivity.

The Scottish Government has limited powers of taxation in its own right, but it could bequeath more powers to local authorities through a form of council tax, for example. There are other ideas, such as cruise ship levies, carbon land tax and so on. Are those useful tools for tackling regional inequality and improving productivity in the regions?

**David Phillips:** I see tax reform and tax devolution as being about two things. The first is improving the efficiency and fairness of the tax system across Scotland as a whole. As I said, that would involve some combination of a revalued and more progressive council tax, a lower or abolished LBTT and reforms to business rates so that they are less distorting of business investment.

11:15

We could do quite a lot with property taxes here, which would benefit Scotland as a whole. I am not sure whether that would narrow or reduce inequalities. There would be a rising tide, but I am not sure how much it would lift the different boats.

Tax devolution to local areas could be thought of as empowering those areas to make different decisions about their revenue mix and the amount that they want to spend.

Secondly, I think that there is a role for local government in sharing some of the burden that we are going to see coming from the rising cost of many public services in the next 20, 30 or 40 years. The UK has quite a centralised tax system. It is centralised to Westminster and then is centralised in the capital cities and Governments in Wales, Scotland and Northern Ireland. Many of the spending pressures for things such as social care or children's social services come through local government, however, and that creates a relationship in which local government has to keep asking central Government for money and central Government then faces all the political pressure to raise that money. Devolving more tax powers to local areas, both in Scotland and elsewhere in the UK, would create a more grown-up relationship in which local government would be more empowered, would be able to make more decisions and would play more of a role, which would remove some of the burden on central Government of being the place that everyone always goes cap-in-hand to.

Redistribution and levelling up is actually about equalisation. It is not about tax devolution: it is about ensuring that, alongside any tax devolution even in the current system, there is a grant distribution system that actually ensures that

money is going to the areas with the greatest need.

Scotland has done better than England at keeping its local government finance system up to date and making it responsive to changes in need, but one factor that underlies the Scottish system is that it accounts for only 65 per cent of the differences in areas' ability to raise council tax. An area with a relatively low tax base has to make up one third of that difference for itself, either by providing fewer public services or by having higher local taxes. If you want the more deprived areas of Scotland to get the resources that they need, you could look at what is called the equalisation percentage and raise that from 65 per cent. For example, Wales has 100 per cent equalisation of council tax. That is one thing that you could look at and it could sit alongside tax devolution and changes to council tax.

I see tax devolution and tax reform as being about productivity, fairness and empowerment. Levelling up is mainly about how that sits alongside: how you allocate funding and the tools that you use to redistribute it around Scotland.

**Professor Wessels:** I am not a fiscal policy expert, but I think that you are talking about the legitimacy of tax decisions. Glasgow city region has the intelligence hub, which is drawing on and using data to understand where the needs are, where budgets or grants might go and what the benefit to overall productivity might be. That is not a tax question as such; it is about how the money that is raised can be used. Our members on the Scotland forum are telling us that there is a need for regulation but that it must be developed so as to enable businesses to use their resources as best they can. It is not a direct tax question, but it is related to how those moneys might be thought through or used.

**Simon Pittaway:** I echo what David said. I think of the tax system as a driver of productivity in general. Property taxation, particularly business rates and LBTT, is a hindrance to reallocation. LBTT is a tax on transactions, which means that the people who are located in residential and non-residential buildings might not be those who get the most value from them. When we talk about companies, that is closely tied to maximising productivity. Reducing the distortions that LBTT creates would definitely be productivity enhancing. On business rates, if you invest in the structure of your business and improve its quality and value, you are then taxed on that. We have proposed exempting new structures from business rates so that, over time, tax becomes much more targeted on the value of the land, which you cannot do much about—it is an efficient tax from an economic perspective. That could be considered within Scotland's existing devolved tax powers.

On the question of how taxation fits with regional inequalities, the devolution bit is what is important. It is about not just empowering local authorities to do things but what incentives they have to improve productivity in their local areas if they are retaining more tax receipts from higher property taxes, that is, business rates and council tax. If there is a more direct link between what local authorities can do to boost property values in their areas, which often means better amenities and jobs, benefiting the authorities themselves, that can be a tool for some of these reforms to take place.

**Lorna Slater:** Thank you.

**The Convener:** I have a final question for the panel. I said at the beginning that this evidence session is part of the committee's scrutiny of the NSET, and you have all touched on some aspects of that. I am keen to get any final thoughts on that and to hear what you think a good economic strategy is. For example, are the measures of success in the NSET the right ones, are the promised actions focused on the right areas, and do you have any wider thoughts on the NSET and, crucially, its implementation?

That is a nice, short, easy question to end the evidence session with.

**Professor Wessels:** There is often a critical take on the NSET, but, in an anecdotal way, I can see from the work that I am doing with businesses and the public sector that it is filtering through in creative ways—there is a nice balance. The challenge is to make sure that it configures and is joined up so that it will tip over into productivity. Certainly, on the ground, I am starting to see the NSET trickle through.

**Simon Pittaway:** The NSET has a lot to commend it—basically, it is great.

**The Convener:** Is that one of the challenges? Does it have a lot to commend it because it just about covers everything? Should it be more focused or should there be more prioritisation?

**Simon Pittaway:** There are elements where prioritisation comes through, but it does not come through explicitly in terms of what the key measures of success are. Right now, the UK Government has its six headline missions and for each of those missions it has, I think, one to three key measures of success. However, in the NSET, there are more disparate measures of what success would look like. There could be a bit more focus on the key things that we want to hit.

On the regional point, what success looks like for different regions does not come through overly clearly. What is the unit of analysis that we care about? To go back to the earlier discussion, is it a question of cities versus towns, or is it the areas

around cities that we care about? We live in a world in which there is perhaps more inequality in those areas. Is it a successful outcome when the cities are doing well and they are where jobs are agglomerating, or do we want more dispersion within the city regions? That is the specific point about scale that I wanted to make.

**David Phillips:** I echo that there is a lot to commend the NSET—it touches on a lot of important issues. I was particularly pleased to see skills management being mentioned, because it is often an unfashionable topic.

There are a couple of areas that could be built on. There should be some sense of prioritisation and phasing—you touched on that, convener. How do the building blocks fit together? What needs to come first and what follows on from that? You need to avoid chicken-and-egg-type situations.

A good place to start investing is in things that are valued both by families and people and by businesses. That could be digital infrastructure and it could also be nice town centres and environments. Schools are another important thing to invest in and are missing in this. We know that families want to live where there are good schools and that businesses want to have access to the next generation of good workers. There needs to be more of a sense of what the initial steps are and how each aspect builds on the next.

I also echo what Simon Pittaway said: if this is a strategy that has a regional dimension, what are the roles of different regions? That was a strength of the former UK Government's levelling up plan—it had a clear sense that it was not trying to level everyone up in exactly the same way. We want there to be another London or a mini-London in each region rather than spreading things too widely across entire regions. If people need to commute a bit or sometimes even move to get some of the most high-skilled jobs, then they would need to move only 50 miles rather than 300 miles across the country. That would be a big change for the UK and probably also for Scotland.

It is good that the NSET emphasises the role of local areas in developing their own plans but that needs to sit within a framework that the Scottish Government can also have in mind.

**The Convener:** Thank you for that, David, and thank you to all the panel members. That brings us to the end of the evidence session. I appreciate that we have probably kept you for longer than we promised when we asked you to join us, but that is because your insights have been incredibly helpful.

11:27

*Meeting continued in private until 11:37.*





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