

An Leas-phrìomh Mhinistear agus Ath-shlànachadh
Cobhid
Deputy First Minister and Cabinet Secretary for Covid
Recovery
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Dear Convener,

Economy and Fair Work Committee - pre-Budget 2023-24 views

Thank you for your letter of 7 November 2022 setting out the Economy and Fair Work Committee's suggested priorities in advance of the Scottish Budget 2023-24. Input from parliamentary committees is an essential and valued part of the Budget process and I thank you and the other Committee members for your submission.

The Scottish Government's responses to the Committee's recommendations are provided below in Annex A. I would be pleased to answer any further questions the Committee might have in relation to the Budget and I look forward to our discussion in the evidence session planned for 18 January 2023.

JOHN SWINNEY

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ANNEX A – Response to the Economy and Fair Work Committee recommendations

As I said in my statement to the Scottish Parliament on 15 December, the 2023-24 Scottish Budget takes place at a time of enormous challenge and difficulty for people and business due to volatility in the economy and the corrosive effect of inflation. These challenges have been compounded by the United Kingdom Government's approach to Brexit and its decisions in the mini-Budget in September.

In response, the Scottish Budget sets out three main priorities of eradicating child poverty, strengthening public services and moving towards a net zero economy. A stronger, fairer, greener economy benefits everyone living in Scotland and through the delivery of our National Strategy for Economic Transformation (NSET) we can help ensure that Scotland emerges strongly from the current economic crisis as well as shape our longer term future. Our vision is for a wellbeing economy that serves people and the planet first and foremost, for current and future generations – an economy based on the principles of prosperity, equality, sustainability and resilience.

Committee Recommendations – tourism and hospitality

- 1. The Committee recognises the exceptional pressures now facing the tourism and hospitality sectors and calls on the Scottish Government to bring forward targeted business support. The Committee is strongly in favour of the sectors being prioritised for business rates support. The Committee asks the Scottish Government to engage with STERG to agree how best to target business support.**

SG Response

As the Committee will be aware, the economic outlook is extremely challenging. Growth in the UK and Scottish economies has weakened notably since the start of the year amid inflationary pressures. The Scottish Fiscal Commission is expecting the Scottish economy to follow the UK into recession which, although shallow in nature, will last for 18 months. Against this backdrop, I recognise that businesses in the tourism and hospitality sectors continue to face significant challenges, including the ongoing and longer term impact of COVID-19, labour shortages and rising costs.

We will continue to work together with partners to transition from the Scottish Tourism Emergency Response Group (STERG) to a Tourism and Hospitality Industry Leadership Group (ILG), which will help drive recovery and sustainable growth across both sectors in the long term. The ILG, which met for the first time on 23 November, is co-chaired by the Minister for Business, Trade, Tourism and Enterprise, and Marc Crothall, Chief Executive of the Scottish Tourism Alliance. The group will oversee the delivery of Scotland Outlook 2030 and its commitment to four key priorities - passionate people, thriving places, diverse businesses, memorable experience - ensuring it also aligns with the ambitions of NSET as well as regional and sectoral strategies.

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The Scottish Budget contains measures to help businesses through action on non-domestic rates. We have listened to businesses and their representative groups and by freezing the poundage we will ensure over 95% of non-domestic properties continue to pay a lower property tax rate than anywhere else in the UK. The freeze in 2023-24 is expected to save ratepayers £308 million in 2023-24, and over £900 million over the course of the current revaluation. The Budget also supports a package of reliefs worth an estimated £744 million. In the context of Covid recovery and the cost-of-living crisis, we are protecting business that will see the biggest rateable value increases at revaluation by providing transitional reliefs which will cap rates increases for the next three years.

Having the lowest poundage in the UK for the fifth year in a row, as well as the transitional reliefs proposed for 2023-24, will benefit properties in the retail, hospitality and leisure sectors, and we expect around half of the properties in those sectors to be eligible for 100% Small Business Bonus Scheme relief in 2023-24.

To help businesses with energy costs, we have provided an additional £300,000 to Business Energy Scotland to expand and improve energy support for small to medium sized businesses, and we have doubled the energy efficiency cashback element of the SME Loan & Cash Back Scheme to £20,000, covering up to 75% of the installation cost, helping many SMEs with their energy efficiency ambitions. In addition, with energy pricing being reserved, we have repeatedly called on the UK Government to clarify how businesses, especially SMEs, will be supported through the energy crisis from April after the Energy Bill Relief Scheme ends. However, businesses continue to face uncertainty as a result of the UK Government's decision to delay the announcement on how it will continue to support businesses with soaring energy costs beyond April 2023. We have also pressed the UK Government for a range of measures to help ease pressures on businesses. This includes expansion of shortage occupation lists, a VAT reduction on energy bills, and an extension of the Coronavirus Business Interruption Loan Scheme and other loans.

We have engaged with business organisations at both Ministerial and official level to identify regulations causing significant cost concerns and, as announced in the Emergency Budget Review, we have established a Joint Taskforce on Regulation with local government, business and regulatory agencies to consider the differing impacts of regulations and drive long-term improvements in the process of developing and implementing regulation. The Taskforce met for the first time on 14 December and is co-chaired by the Minister for Business, Trade, Tourism and Enterprise along with a senior representative from COSLA.

2. The Committee seeks the Scottish Government's assurance that its 2023-24 budget will protect VisitScotland's international marketing spend to ensure Scotland is vigorously promoted globally as a leading destination.

SG Response

As noted above, the Scottish Budget for 2023-24 has been introduced in the context of the most challenging financial situation since devolution. As we navigate through some extremely difficult financial decisions, VisitScotland will continue to show its expertise and creativity in exploring new and innovative marketing models, for example embracing digital technology and exploiting social media and partnerships to foster opportunities in local, national and global economies. The VisitScotland Board will fully consider scenarios that will enable them to successfully carry out their marketing activity in light of the Scottish Budget.

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VisitScotland has played a key role in establishing 'Brand Scotland', which has seen significant progress over the last year in expanding the collaboration and delivering on the commitment to create a single nation brand marque for Scotland. VisitScotland will be a key strategic partner as we look to stimulate renewed opportunities and maximise Scotland's international impact.

Committee Recommendation – manufacturing and Scotland's workforce

3. Next year's Scottish budget must prioritise funding for skills development, focused on the engineering and the wider manufacturing sectors to support and incentivise work-based learning and provide improved apprenticeship support. There is a strong economic need, in Scotland, for a better supply of skills to take advantage of the significant opportunities presented by ScotWind, renewable heat, hydrogen futures and decarbonisation initiatives towards meeting our net zero targets.

SG Response

The National Strategy for Economic Transformation (NSET) sets out the importance of a skilled workforce to business productivity and economic prosperity, and we are committed to adapting the education and skills system to make it more agile and responsive to our economic needs and net zero ambitions. The next ten years are critical if we are to generate significant economic opportunities from the just transition to net zero. Harnessing these opportunities will require Scotland's workforce to be equipped with the right skills at the right time. This will put new demands on our education and skills system as whole sections of the workforce may need support to transition into new or altered job roles.

As the Committee will be aware, in September James Withers, previously CEO of Scotland Food and Drink, was appointed to lead an independent review of the skills delivery landscape. A call for evidence is currently live, and the review will provide independent advice on the skills functions of our public bodies and will clarify the future functions, remit and status of Skills Development Scotland within the wider skills delivery landscape. The purpose of the review is to make recommendations on how the landscape could be adapted to drive forward the ambitions in NSET.

Our *Making Scotland's Future* manufacturing programme brings together key stakeholders to deliver a more coherent approach to understanding and directing a response to the skills needs of the sector. In addition, the National Manufacturing Institute Scotland and the Michelin Scotland Innovation Parc have both established Skills Academies to transform the manufacturing workforce of today and tomorrow, whilst supporting our ambitions for a just transition to net zero.

The Scottish Budget 2023-24 continues the significant capital support for the Low Carbon Manufacturing Challenge Fund, which was launched in May 2022 and will provide £26 million over its five-year term to support innovative proposals to reduce the carbon footprint of manufacturing. It is designed to build on Scotland's existing expertise, encouraging partnerships to come forward with bids that will encourage the adoption or development of low carbon technologies or processes. Projects can use pure research and development, capital investment or environmental aid to speed up the transition to a low carbon economy in manufacturing. There is a minimum value grant of £150,000 available for eligible costs.

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As indicated above, many people will have to upskill or retrain throughout their working lives to respond to changing labour market needs. That is why, in addition to a strong post-school education, research and skills system, which includes targeting to ensure young people are fully equipped to enter work, particularly in key sectors, the development of our apprenticeship and lifetime skills offers will be critical to economic success. Our apprenticeship programme offers a range of frameworks across the engineering and the wider manufacturing sector. Apprenticeships are a key way for employers to invest in their workforce, providing the skills the economy needs now and in the future, and our priority is to ensure that apprenticeships are of high quality and lead to sustainable employment opportunities. We will continue to work closely with Skills Development Scotland, the Scottish Funding Council and the sector to maximise apprenticeship opportunities and ensure that employers wishing to take on an apprentice across the sector are supported and able to do so. In addition, as committed to in NSET, work to develop a lifetime skills offer is well underway, with an initial research and stakeholder engagement programme nearing completion. In the new year we will seek to develop an offer that makes it simpler for individuals and employers to access existing upskilling and reskilling support.

We have also established an Industry Advisory Group for rest of UK (rUK) Talent Attraction, chaired by the Minister for Business, Trade, Tourism and Enterprise. This group will explore how best to shape a talent attraction programme that can expand Scotland's talent pool at all levels, to give employers the skills pipeline needed to take advantage of opportunities and benefit our economy.

To help realise our ambitions to create a future workforce that can support our transition to a net zero economy, the Climate Emergency Skills Action Plan (CESAP) sets out Scottish Government and delivery partners' programmes and policies to deliver change. It also highlights that growing investment and innovation in the energy sector is expected to result in increased demand for labour and skills, with rising pressure for adapted and new skills at all levels. We will publish an updated CESAP in 2023. This will reflect the draft Energy Strategy and Just Transition Plan and set out next steps for the Green Jobs Workforce Academy, reflecting the need for a central resource for information, advice and access to training towards jobs needed for the transition to net zero. We are continuing to work with partners across the education and skills system and with industry to support the alignment of training provision with the needs of the energy sector. To inform the updated CESAP, we are undertaking research on skills needs for hydrogen, heat in buildings and on Scotland's islands.

While the sector's overall share of Scotland's total employment is set to decline slightly in the next decade, there will be accelerated diversification of traditional oil and gas business into wider energy and other sectors, and significant growth in renewable electricity, hydrogen, heat and transport decarbonisation, and more. Most new roles in the sector will build on existing skillsets from oil and gas, industrial research, manufacturing, and civil engineering. OPITO has been awarded £5 million from the Scottish Government's £500m Just Transition Fund for the North East and Moray for the development and deployment of the industry-led digital offshore energy skills passport to support the transition of skills and jobs across the industry. By aligning safety and training standards and providing a mechanism for workers to easily collate and share their qualifications, the skills passport will remove existing barriers for workers seeking to transition into low carbon industries. The passport will streamline the transfer of skills and address the lack of recognition of cross-sector skills. It will support oil and gas workers who, through their choice or through the natural reduction of jobs, will need to make a move to another part of the energy sector.

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Committee Recommendation – employability support

- 4. At a time of acute labour shortages, difficulties with staff retention and recognising the benefits of an inclusive workforce and economy, the Committee asks that the Scottish Government look again at the rationale for the £53m cut to employability services. The Committee asks the Scottish Government to provide the Equality and Fairer Scotland impact assessment undertaken in advance of this spending cut.**

SG Response

The decision to take £53 million as a saving from employability funding was not taken lightly, but, given the challenging financial situation, we sought to make savings that we considered would have the least impact on public services and on individuals during the cost crisis. We know that for many people the journey to employment can be a long one, and what matters most in the current economic climate is money in the pocket of families today. The actions set out in our Programme for Government and the Emergency Budget Review are designed with that in mind. Some of the measures we have taken include doubling the Fuel Insecurity Fund to £20 million in 2022-23; an Island Cost Crisis Emergency Fund of £1.4 million; and implementing reforms to remove cost burdens for the most financially vulnerable, allowing them to obtain debt relief through bankruptcy.

One of the central themes in NSET is addressing structural barriers to entering and staying in the labour market, and we have maintained our existing investment in employability support this year (2022-23). In total, across 2022-23, over £82 million has been made available (£59.433m through No One Left Behind and £23.5m through Fair Start Scotland) to ensure employability support remains in place for those who need it, including support for parents. Moreover, the 2023-24 Budget will provide £121.4 million to support employability, skills for our young people, and fair work. This is a £6.5 million increase in spend in comparison to 2022-23 and demonstrates our commitment to eradicate child poverty and ease labour shortages for business.

Employability support is critical, but for those facing the most significant barriers to entering and sustaining work it is only part of the picture and, in isolation, cannot achieve the full extent of the impact we want to see. That is why we set out in *Best Start, Bright Futures* a cross-government commitment around developing an integrated service offer. With wrap-around support from other key public services, employability stands the best chance of supporting people into fair and sustainable work at the right time for them. This work is currently underway and will continue despite the savings referred to by the Committee.

In line with the approach adopted for individual measures within the Emergency Budget Statement, no formal impact assessments were carried out specifically for the changes announced to employability interventions. As the funding referred to by the Committee was intended to be additional in 2022-23 and had not yet been issued, there was no reduction in services being delivered and the intended target groups continued to be supported through the existing employability investment of over £82 million as outlined above. Eligibility for support remains unchanged across both No One Left Behind and Fair Start Scotland as a result of this decision.

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An Equality and Fairness Evidence Summary was published alongside the Emergency Budget Review, which set out the potential equality impacts associated with the decisions made. Furthermore, an equality impact assessment (EQIA) has been published on NSET Programme 4 – Skilled Workforce,¹ and this includes our parental employability support commitments. We have also published an Equality and Fairer Scotland Statement alongside the 2023-24 Scottish Budget.² As we begin to look to delivery of support in 2023-24, we will update the No One Left Behind EQIA to reflect planned additional activity around child poverty, and we will conduct a Fairer Scotland Duty assessment in the next financial year.

Committee Recommendation – Women’s Business Centre

- 5. The Scottish Government is asked to provide an update on progress towards establishing a Women’s Business Centre, including a detailed spending profile of where and how the £50m committed funding will be spent and how much is being budgeted for in the next financial year. The Committee emphasises the importance of establishing a Women’s Business Centre.**

SG Response

We have commissioned entrepreneur Ana Stewart to deliver an independent review on widening access to entrepreneurship for women. Due to publish in the new year, the review will identify specific actions required to address the needs of female-led businesses in Scotland and address the persistent gender gap in entrepreneurship. We will respond swiftly to the review’s recommendations. Our response will be mindful of existing activity and align with NSET recommendations on transforming the Scottish economy through widening business participation under the Entrepreneurial People and Culture programme.

Decisions on long term funding for women’s enterprise support have not yet been made, pending the outcome of the Ana Stewart review. Detailed proposals will be developed in response to the review’s recommendations.

Committee Recommendation – tackling inequalities

- 6. Given the continuing concerns expressed to the Committee on the availability of gender-disaggregated data on women’s business activity and procurement in Scotland, the Scottish Government is asked to work with Close the Gap to identify what more can be done to remedy this.**

SG Response

We expect Ana Stewart’s review on women in entrepreneurship to make recommendations on the collection and reporting of gender-disaggregated data relating to women’s activities in business and their access to and uptake of finance and business support. We will consider next steps once the review has been published.

To address some of the known gaps in equality evidence, the Scottish Government Equality Data Improvement Programme was launched in April 2021. A consultation on a draft plan to

¹ [Equality Impact Assessment - Results - Scotland's National Strategy for Economic Transformation Programme 4: Skilled Workforce Equality Impact Assessment \(Record and Results\) - gov.scot \(www.gov.scot\)](#)

² [Scottish Budget - gov.scot \(www.gov.scot\)](#)

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improve and strengthen the equality evidence base closed on 7 October 2022. Responses will help to shape the plan, which will form the basis of Scotland's new Equality Evidence Strategy 2023-25. Close the Gap responded to the consultation and also attended our workshop on "Improving the collection and use of evidence on sex/gender and religion/belief". Along with feedback from other stakeholders, Close the Gap's contribution will be used to help develop Scotland's new Equality Evidence Strategy, due for publication in Spring 2023.

In addition, we are developing an eCommerce MI Platform, which will link our eCommerce data to Companies House, Charity Commission, Care Quality Commission and other third order sources such as Gender Pay Gap data. The project is due to deliver the Proof of Concept by September 2023 and, subject to ongoing budget and resource requirements, results will be delivered in stages throughout 2023.

More broadly, NSET sets out an ambition that Scotland's economy will significantly outperform the last decade, both in terms of economic performance and tackling structural economic inequalities. As committed to in the strategy, we have established a Centre of Expertise in Equality and Human Rights within the Scottish Government. The Centre intends to work with partners, including stakeholders and academic experts, to help embed equality and human rights within the economic policy-making process.

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