



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy and Fair Work Committee

Wednesday 1 September 2021

Session 6



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Pàrlamaid na h-Alba

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ECONOMY AND FAIR WORK COMMITTEE

2nd Meeting 2021, Session 6

CONVENER

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

DEPUTY CONVENER

*Colin Beattie (Midlothian North and Musselburgh) (SNP)

COMMITTEE MEMBERS

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

*attended

THE FOLLOWING ALSO PARTICIPATED:

Maggie Chapman (North East Scotland) (Green)
Carolyn Currie (Women's Enterprise Scotland)
Rose Marley (Co-operatives UK)
Barry McCulloch (Federation of Small Businesses Scotland)
Dave Moxham (Scottish Trades Union Congress)
Charandeep Singh (Scottish Chambers of Commerce)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Economy and Fair Work Committee

Wednesday 1 September 2021

[The Convener opened the meeting at 10:00]

Decision on Taking Business in Private

The Convener (Claire Baker): Good morning and welcome to the second meeting in 2021 of the Economy and Fair Work Committee. We have received apologies from Alexander Burnett.

I take this opportunity to congratulate former committee member Lorna Slater on her appointment as minister. I am sure that we will see her on the other side of the table at some point in the parliamentary session. I also welcome to the meeting Maggie Chapman MSP. Although not a full committee member, she is joining us for this morning's evidence-taking session.

Agenda item 1 is a decision on taking business in private. Are members content to take items 4 and 5 in private?

Members *indicated agreement.*

Economic Recovery

10:01

The Convener: Item 2 is an evidence-taking session on business recovery. I welcome to the meeting our panel of witnesses: Carolyn Currie, chief executive, Women's Enterprise Scotland; Rose Marley, chief executive, Co-operatives UK; Barry McCulloch, head of policy, Federation of Small Businesses Scotland; Dave Moxham, deputy general secretary, Scottish Trades Union Congress; and Charandeep Singh BEM, deputy chief executive, Scottish Chambers of Commerce. Thank you for joining us this morning. The aim of the session is to consider the economic recovery of Scottish businesses and to inform the committee's input to the Scottish Government's budget for 2022-23.

I will start with a question for Barry McCulloch and Charandeep Singh. Obviously we have come through a very difficult time for Scotland's economy and businesses. Although the restrictions of the pandemic are easing, making it easier for some businesses to operate, the pandemic is expected to have quite a long tail and some sectors and regions will continue to find things difficult over the next length of time. Barry, can you give us an idea of which sectors and regions will continue to need prioritised support?

Barry, can you pause for a minute? We cannot hear you.

I will move to Charandeep Singh just now, and then come back to Barry McCulloch.

Charandeep Singh (Scottish Chambers of Commerce): This is a very important question that we have all been grappling with for months since the lockdown was put in place. From our perspective, as the Scottish Government has met its milestones for relaxing and removing legal restrictions, business confidence across Scotland's major sectors has been boosted. That is a good thing, and it is good that we are continuing to meet the deadlines for easing restrictions.

That said, we should not lose sight of the fact that there are still many restrictions in play, particularly on aviation, tourism and our connectivity with the rest of the world. That is a major sector that should not be ignored. The fact that our local economy is starting to open up does not necessarily mean that all of Scotland's sectors are ready to trade again as they were trading before the pandemic or even in a restricted way.

That has had serious implications. For example, air routes from Scotland have been cancelled, and it will take years to get them back. Moreover,

people are choosing to holiday elsewhere. We need to be aware of such serious considerations, and we need a plan for restarting and supporting those sectors.

Sectors such as international trade, tourism, exporting and aviation will always need some grant or financial support when restrictions are put in place, but that should not be the end goal or sole purpose of our considerations. The goal and focus should be the safe reopening of these sectors, not simply the issue of grant support. That is certainly our focus, and we would welcome it if the committee could delve into these areas in a bit more detail and if the Government could take more practical steps and work with industry on sectors such as tourism and aviation that are still restricted or which effectively remain closed. Exports, in particular, continue to be hurt. Those are the areas that we would prioritise in order to move forward.

The Convener: Thank you, Mr Singh. Are we able to hear from Barry McCulloch from the Federation of Small Businesses Scotland?

Barry McCulloch (Federation of Small Businesses Scotland): I hope so, convener. Is that better?

The Convener: Yes. We can hear you now.

Barry McCulloch: Excellent. When we were testing the system, it was all good, but that is technology for you.

Good morning. Apologies for the disruption, and thank you for the opportunity to take part in this evidence-taking session. Building on Charandeep Singh's comments, I think that it is important to reflect on what has gone on since our last session on this issue in August 2020. At that point, the country was going through its first local lockdown, which was in Aberdeen, and the eat out to help out scheme was live. Fast-forwarding to now, past the various lockdowns, restrictions on trading conditions, the vaccine programme and so on, we can see that a lot has changed.

It is important to stress that, as Charandeep Singh has said, things are looking brighter, due in part to the extensive business support that Governments have provided, and to the business community's resilience and adaptability. However, as with so many things associated with the pandemic, there has been a cost, and 17 months of restrictions has taken a huge toll on the business community. We have accumulated a massive amount of debt—as our submission states, the figure is around £4 billion from 100,000 loans—and the impact of that debt on future growth and investment is unclear, particularly for the tourism, hospitality and retail sectors, which have in many ways borne the brunt of the crisis.

Looking forward, and notwithstanding the fact that the economy is improving, I think that the future is highly uncertain against such a challenging public health and public finance backdrop. If you had asked me the same question three weeks ago, convener, I would probably have given you a different and perhaps more optimistic answer, but given the conversations that I have had over the past week or so in light of the high case numbers, I think that many small business owners are, quite naturally, concerned about the prospect of future restrictions and lockdowns. While that remains the case and while they are in survival mode, it is difficult for businesses to plan for or indeed consider the wider debate about economic recovery. It is therefore critical for the Scottish Government and its wider support network to continue to help those facing particular hardships as we move through what will probably be a difficult autumn and winter period.

The Convener: Thank you for those very helpful responses, which have touched on many of the issues that the committee will want to ask about.

What will be the likely impact of the furlough scheme coming to an end in September? Some issues such as labour shortages are getting a very high profile at the moment, and some have argued that ending furlough might ease the situation. What are the difficulties in that respect? Are we at the stage where we can end furlough and businesses are able to redeploy people? Again, that question is for Mr Singh and Mr McCulloch.

Charandeep Singh: There is no doubt whatever that the furlough scheme has been an important intervention by the UK Government but, as we know, many businesses have started to reopen and are therefore no longer using it. It is a good thing that people are going back to work and our economy is reopening.

However, we are concerned about the risk of restrictions in the future. As we said last year, it is important that, where local restrictions come into play, businesses must have a furlough option to tap into, particularly if those restrictions are applied at the last minute. Quite frankly, the same should apply across the whole of the UK, not just in Scotland.

There were skills shortages in the economy even before Covid, but they have been exacerbated, and are now even more pronounced, because of the pandemic. We do not subscribe to the view that the furlough scheme coming to an end will alleviate the skills shortages that we have right now. We need to separate those two points.

The issues with skills shortages cover everything from the training of staff in new skills in key sectors to accessing international talent, which

continues to be a big issue. The UK Government's current policy is not accessible, and the issues in that policy area existed before the pandemic. All those issues have exacerbated the current skills shortages.

We think that the furlough scheme should be available and ready to be deployed in the future, should restrictions be put in place for any sectors.

Barry McCulloch: As Charandeep Singh said, the furlough scheme provided lifeline support for business owners and workers for a long time. If we cast our minds back to last year, we can remember the fears about very high levels of unemployment. Some projections stated that unemployment might go up to 12 or 13 per cent, but that has not happened, partly because of the furlough scheme.

As we move forward, we need to make the right calls and strike the right balance between providing support to cover the biggest overheads for business owners and providing greater support to address the labour and skills shortages that Charandeep Singh mentioned. The truth is that we do not know what will happen when the furlough scheme comes to an end. In Scotland, more than 100,000 workers are on furlough. Those workers tend to be concentrated in sectors such as the arts and the creative sector, so it is wise to think clearly about what will happen in those parts of the economy.

We are assuming, while having this conversation, that the public health picture will improve and that the public health restrictions, which have been a big part of our lives for the past 17 months, will no longer play such a prominent part. If that were to change, the UK Government would have to, as it is doing now, consider carefully what to do next.

A few months ago, we published research showing that the labour and skills shortages tend to be concentrated in the retail, tourism and hospitality sectors, but they are not exclusively in those sectors. Remote and rural communities have particular challenges, which were apparent before the pandemic and continue to be a big factor. At this stage, it is difficult to pinpoint a method by which we could alleviate some of those problems. Many of them are tied up with nervousness about making long-term commitments and about staff footprints. As Charandeep Singh stated, it is important to note that not having access to international talent in the way we once did is also a factor.

As to what happens next, we will watch this debate quite closely, as all Governments will be doing.

The Convener: I am keen to move on to the next questions, but I understand that Carolyn

Currie and Rose Marley would like to comment on this issue. I ask them to do so briefly.

Carolyn Currie (Women's Enterprise Scotland): In relation to the long tail of the pandemic, there are serious concerns about the ability to recover of some of the sectors that were first to close and last to open. Charandeep Singh rightly mentioned the travel sector. I want to mention the health, leisure and beauty sectors, which have suffered quite significant impacts. More could be done with access to markets and to support greater access to other markets, specifically with e-commerce and digital when we are looking internationally. Procurement also offers an area of significant opportunity for markets here in the UK.

On furlough, you have already heard that the issue is the serious uncertainty. It is also important to look at training through the lens of seasonal opportunities for businesses. We are coming up to the Christmas period, which is crucial for so many, so to have that uncertainty and the rising numbers at this point in time is a very serious concern for many industry sectors that rely on that seasonal turnover.

On skills, I would also highlight that we are seeing quite a bit of labour market realignment with the businesses that we work with. Specifically, women are not returning to the jobs that they once held, and that means serious shortages in sectors such as hospitality.

10:15

Rose Marley (Co-operatives UK): On learning the lessons and resilience, I wanted to highlight the fact that businesses on the co-operative model were four times less likely to go under during the pandemic than businesses generally. Looking forward, we need to learn the lessons and look at some of the things that we can do with workers when furlough ends, such as having them take over their own businesses, and developing ideas on enabling people to take control and improve their lives in this really difficult period.

Michelle Thomson (Falkirk East) (SNP): Good morning, everybody. It is nice to be able to reacquaint myself with some people whom I knew previously.

I was very struck by Carolyn Currie's comment about the disaggregation of data and how important that is. However, before I move on to ask Carolyn some questions about that, I want to ask the other representatives whether they disaggregate all the sample data by women-led businesses? That question is for everyone, bar Carolyn.

Charandeep Singh: We have specific programmes for women in business, whether it be women's business mentoring or—

Michelle Thomson: I am sorry to interrupt you, Charandeep, but I am asking whether you disaggregate all data in all of your surveys.

Charandeep Singh: No, not unless it is part of the specific programmes that we target to women. No other surveys are disaggregated by gender.

Rose Marley: Like Charandeep, we have lots of evidence about how strong female wages are in co-operatives, but we do not disaggregate all our reports and data. We will carry out a census in 2022 to look at some more of that information, but it is not done across every report at the moment, although we do consider all areas of diversity.

Barry McCulloch: The answer is yes, and no, which is imperfect—I understand that. We have recently run a programme across the UK with a survey partner, and that data can be disaggregated by gender. I have to confess that we do not always look through the data along those lines, given the size of the samples. That stands true of gender, age, other characteristics and place. However, the ability is there, and I am happy to talk about how we can do that better in the future.

We have launched data during the past six months or so, and we have done a lot more snap polling ahead of the key announcements that the Scottish Government has made. However, we have not been disaggregating that data by gender. Those polls were meant to be something quite quick that members could use intuitively to tell us their sentiment and how they were feeling.

Your point is taken; we should be disaggregating all our data on that basis.

Michelle Thomson: I realise that it is a slightly different question for Dave Moxham.

Dave Moxham (Scottish Trades Union Congress): Yes.

Michelle Thomson: Okay—I will carry on for now then.

The responses were illuminating. In relation to the disaggregation of data, I was extraordinarily struck by the data set that Carolyn Currie provided, and by her point about people who become entrepreneurs out of necessity versus opportunistic entrepreneurs, as we might say. The former have different needs because of how they have arrived at running their own businesses.

I am particularly interested in following up on Carolyn Currie's comment about structural issues. She has said:

"structural inequalities prevail".

Perhaps we have a slight example of that in the point that we are routinely not gathering disaggregated data, but I am interested in hearing and understanding more about what specifically she meant by that.

Carolyn Currie: Generally, we tend to perceive that life is more equitable than it actually is, and the role of data is to shine a light on some of those issues, as you have seen from the data that we have released.

Structural inequalities tend to be about a lack of appreciation of the issues that impact women in undertaking day-to-day business. That can be the case in, for example, the support that is delivered to businesses. Women's Enterprise Scotland is part of the Women's Enterprise Policy Group, which is a UK coalition. About a year ago, during the pandemic, we issued a policy brief exactly on that topic in which we said that many women-led businesses that trade from home were ineligible for grant support during the pandemic, a condition of which was to operate from premises. That is one example of the issues.

In that brief, we also highlighted the need for equality impact assessment. We talked about the importance of monitoring the equity of grant and loan funding that is available and asked for it to be subjected to equality impact assessment. We want to ensure that public monitoring is in place and that we have insight into not just gender disaggregated data but intersectional data. We also pointed to the need to train decision makers on the cause and impact of gender bias and how to prevent it.

Another example is the impact of the caring commitments of many women during the pandemic. As I mentioned, we think that many women will not return to the jobs that they once held. There is a need for more flexible working. The need to juggle caring commitments has been a real factor in women's ability to work and to run their own businesses. Again, access to affordable good-quality childcare is a key issue. I mentioned the impact on some sectors, such as the health and beauty sector, which was one of the first to close and one of the last to open, all of which has impacted on businesses' ability to regenerate.

In the context of the data that we have released on grant funding, I emphasise the need to train business advisers in being gender aware.

Michelle Thomson: I will carry on with that in a moment, but I understand that Dave Moxham wants to come in.

Dave Moxham: I just want to respond to your previous question. You recognised that the issue of disaggregation of data is slightly different for the STUC or trade unions, but I just want to say that we disaggregate our data, which means that we

are able to follow trends, particularly with respect to gender in the labour market, and to identify that nearly all the sectors that we have touched on this morning are predominantly full of women workers and are predominantly low-pay sectors. We are able to follow with some clarity the fact that pay and working conditions, and the gender inequalities involved in those, are fundamental parts of what we have to look forward to in the period ahead.

Michelle Thomson: Going back to the general question about structural issues, I am sure that we will be very vexed with the issue of cause and effect throughout this session of the Parliament, but, with regard to effect, we would all agree that much more needs to be done. With regard to cause, going right back to the top, there is the fact that the law was developed by men for men, and there are issues with banking regulation and with artificial intelligence embedding some of that thinking, and so on. Given that, my question to all of you is: rather than women-designed programmes, to what extent have you looked specifically at the nature of the business environment—which, post Covid, presents us all with an opportunity—as though it were entirely led by women as a way of bringing out data? Are you planning on doing any further research? Have you undertaken any research post Covid, in the light of Carolyn Currie's data?

Rose Marley: Our research is specifically on the community shares option, which is a way of raising funds for community benefit, societies and co-operatives, and 41 per cent of those investments are led by women, compared to 9 per cent of angel investments. Therefore, we have strong evidence that fairness and equality, structurally, tend to encourage women to take over and lead businesses.

Carolyn Currie: With regard to solutions, we see a women's business centre model as vital. I started lobbying for that at the start of the previous parliamentary session, and there is a serious opportunity here to put that model into action. I also emphasise the fact that there is a big difference between expert support being delivered to women and business support being delivered to a group of women. At the moment, in Scotland, the support that tends to be delivered by most organisations is traditional business support, which is delivered to a group in a population of women. I suggest that that is the lowest common denominator of support for women, and our aspiration should be to deliver expert support to women that is directly aligned to their needs and which pulls from research and years of knowledge.

Michelle Thomson: I want to talk briefly about debt in small businesses, which has been talked about frequently—indeed, it was mentioned in

many of the submissions. What is your sense of the debt burden for small businesses, and what are your thoughts about how they can be supported in dealing with that?

Barry McCulloch: I will jump in first. As you say, the pandemic has caused a high number of small businesses to take out finance, principally through the bounce back loan scheme. About half of our members have taken out those loans, about another 10 per cent have used the coronavirus business interruption loan scheme, and approximately another 10 per cent have taken out other bank finance. In total, that debt is about £4 billion, which is a lot of money, especially in the context of a tradition of small businesses being permanent non-borrowers. It is important to state that, from our research, at the moment, the majority of small businesses are either not worried or are a little worried about debt repayments. However, one in four small businesses are worried about their ability to repay the loans.

It is also important to stress that much of what business owners are thinking about in that regard is being thought about on the assumption that they will be able to trade their way out of the crisis, that there will be a buoyant economic recovery, and that there will be disposable consumer spend and high levels of confidence in local economies. If that is not the case, I think that the debt problem will not become more manageable, notwithstanding the help to pay that will be out there from the financial institutions, and the deferral scheme.

We are slightly worried, but the majority of our members and others are okay with that. The banks have risen to the challenge, but we have concerns about the impact that there will be on long-term investment and plans. That is a particular concern for the Scottish Government as we move into that phase of economic transformation.

10:30

Carolyn Currie: I am a chartered banker and the former head of lending at a major bank.

I think that, behind the scenes, concerns about the levels of borrowing that businesses are exposed to will continue to increase. The situation is quite unprecedented, and it would be helpful if the financial services industry looked at the opportunities in structuring that debt—in particular, longer-term repayment options. The ability for businesses to have proactive conversations about managing that debt is absolutely vital.

Michelle Thomson: I want to pick up on that before I go to Charandeep Singh. I am aware of the time. Given your experience and background, and in light of what you have said about the nature

of women's businesses, to what extent does the structural management of debt exclude gender considerations in how banking is currently run?

Carolyn Currie: Currently, most bank lending runs from behind the scenes, and underwriting, algorithms and programs tend not to take gender into account. For example, if a woman business owner goes on maternity leave and has a period of absence from her business, that is not regarded as maternity leave and looked at through that particular lens; it will simply be coded as time out from business. There are structural issues in those lending algorithms that do not take gender into account.

Michelle Thomson: That is what I was alluding to earlier in respect of endemic structural issues in our financial system.

I am keen to ensure that, before we finish, everyone has the chance to put on the record their findings about debt. However, I am aware of the time, so you should be brief before the convener calls me to order.

Charandeep Singh: I echo the points that Barry McCulloch and Carolyn Currie have made. We have put forward specific recommendations on the ability of businesses to repay what are, in effect, mountains of loans that have been taken on during the pandemic. We have put forward recommendations on extending the term of repayment from six to 10 years and on looking at additional options, such as a student-loan style option whereby businesses pay back once they reach a certain level of profitability, depending on which sector they are in, at what point they will be able to reopen and their ability to openly trade again.

Just because the debt pile is a big number—billions of pounds—that does not necessarily mean that businesses have had an equal ability to acquire that debt. Different customer groups or business groups—for example, black and minority ethnic businesses—were more likely to access the grant schemes rather than the loan schemes. There is certainly not an equitable distribution of the debt; it is concentrated in specific sectors and specific leaders that run businesses.

There was a point about research that I did not get a chance to speak to. On research that is needed, it is important that we are working in great detail on how we gather and report data. As that conversation develops, I would be more than happy to come back to the committee and share how the conversations are going and what practical steps we are putting in to gather that data.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I will focus on a couple of areas. The first is supply chains. We have all seen

the apocalyptic pictures of supermarkets with empty shelves. I know from my area that building materials are at a premium; I have seen cement being rationed and councils being unable to carry out repairs to their tenants' premises because they cannot access materials such as plasterboard. What impact is that having on the Scottish economy and on your businesses? I will not name a particular witness, because I think that the matter affects everyone.

The Convener: I know that it can be frustrating for members who want to address questions to the whole panel, but it is helpful to our broadcasting colleagues if members name the panel member to whom they are directing the question.

Barry McCulloch: We have also been hearing everything that Colin Beattie said about problems in supply chains, whether it is shortages of building materials for the construction sector or goods for food retailers. There is considerable cause for concern at a time when firms are also finding it difficult to hire staff and are trying to plan for an uncertain future. The combination of uncertainties drains confidence from the economy. Our data shows that confidence levels and the capacity to invest in manufacturing have also been hit by supply chain issues.

The FSB is trying to understand what is happening and, where we can, to help our members to source the goods and services that will offset some of those issues. We will publish our small business recovery plan next week. It highlights the work that Ivan McKee and the Scottish Government have been doing to encourage more Scottish firms to provide key components for the manufacturing and construction sectors. We think that a lot more can be done to connect the supply of great stuff that is out there in the small business community with the key elements of our production sector.

In some ways, the issues that we are seeing show lack of resilience in supply chains and overreliance on imports. In our current context, we must do more, as a country, to produce internally and to connect what businesses have with what consumers want. That will be incredibly difficult and there will be many mistakes made, but the FSB and other trade bodies will work closely with the Scottish and UK Governments to try to offset some of those issues.

Colin Beattie: Perhaps Charandeep Singh could comment on that. I am interested in the impact on sectors other than construction and food. Have you had feedback from your members?

Charandeep Singh: This is an important issue. One reason why it has been in the media so much is that many of the businesses that are facing

supply chain or materials issues are also dealing with staff shortages. They are having to manage a double hit.

We are looking at how we can develop and build resilience in local supply chains. However, we have a global economy and we will not be removing international supply chains any time soon. We must seriously consider how our transport sector is meeting the import and export needs of our supply chain. Equally, we must ensure that we have staff on the ground, so that when the materials and supplies that we order reach Scotland, we have the people to use them.

This is an important point. Manufacturing, construction and the food sector are probably facing the most disruption. There is no doubt about that. Other sectors have been facing supply chain issues, but the majority of the feedback from our surveys is from manufacturing, construction, food and drink, and hospitality. I am more than happy to look at other sectors that are facing supply chain issues, including smaller sectors, and to come back to you with additional information.

The important point that we are picking up is that it is not supply chain issues in isolation that are the problem; skills shortages are also making an impact.

Colin Beattie: That would be helpful. The second topic that I will talk about is labour shortages; perhaps they are part and parcel of the supply chain difficulties. We have all seen media reports that we are 100,000 truck drivers short and that 2,000 are leaving the trade every week with only 1,000 being recruited. I cannot guarantee those figures from the media; maybe Dave Moxham has something to say on the topic.

Dave Moxham: I have a couple of observations on that. The first is a general one; I apologise if it sounds critical of other members of the panel. We have to be clear that a skills shortage and a labour market shortage are not necessarily the same thing and it can be dangerous to merge the two. It is not as if, for instance, we have tens of thousands of people who are ready to work in the hospitality sector who simply do not have the skills; it is a sector that is very low paid and generally unattractive. It is important that we make the distinction.

In relation to the immediacy of the supply chain issues, many are Covid related and we do not have a date in the calendar when all the supply chain issues that are consequences of Covid—some are also consequences of Brexit—will play themselves out. That clearly argues for on-going soft and flexible support for businesses and workers, as the problems work their way through the system.

I will also talk briefly about some of the opportunities, which were touched on by the FSB. One of our recent reports shows that there is potential in the medium term to consider how we develop our local supply chains. The committee needs to have an eye on what needs to be done to mitigate the supply chain impacts of Covid, but it should also consider the opportunities, as the FSB said, to strengthen our local supply chains in the period ahead.

Colin Beattie: Is there anything that the Scottish Government can do to improve the supply chain or the availability of labour?

Dave Moxham: That is limited, because many of the regulatory powers exist at the UK level. It will not be a surprise to anyone to hear the STUC being exposed as supporting greater employment protections and higher minimum wages, which would make employment in the sectors more attractive. There are things that the Scottish Government can do through fair work and procurement, and through conditionality on grant support, to ensure that not only is good work being produced, but that local work is being produced.

There are what we would generally describe as soft but important levers that the Scottish Government could use to ensure that much-needed business support goes hand in hand with undertakings to produce good-quality jobs. I refer back to the discussion that we had earlier about jobs being more equally distributed in relation to gender, race and other equalities characteristics.

Colin Beattie: Can Rose Marley tell us about the trade environment and how skills shortages and supply chain difficulties are impacting it?

Rose Marley: The other panel members have touched on that. Fundamentally, we have issues with workers' conditions in our supply chain. Co-operative Development Scotland has been working on worker co-operatives and identifying opportunities for people to have a say in where they work, which greatly empowers them.

There are no quick fixes for the immediate problems that we face—not the least of which is the pandemic—in the supply chain. We have loads of examples, such as the Open Food Network, which is a bunch of local farmers working together to supply food.

10:45

There is also community wealth building, which other witnesses have touched on, which is about keeping work and opportunity in a locality and building on it. However, that is not a quick fix—it is fundamental, in that we need to develop more resilient ways of working so that we are future proofed for crisis. The ripple effects of the

pandemic will keep on hitting us, so we need to build resilience against that, including by looking at workers' conditions.

Colin Beattie: Perhaps Carolyn Currie can comment on supply chains and skills shortages.

Carolyn Currie: On supply chains, gender-disaggregated data on procurement would be incredibly insightful in respect of women's access. Diversity is a driver of resilience, which is what we want in our supply chains. We have heard of instances in which women have not been successful in procurement or tendering. From our experience, even when we have tendered or tried to get into supply chains for delivery of expert women services, those opportunities have gone to male-led organisations.

Colin Beattie: Is there anything that the Scottish Government can do, either immediately or in the long term, to create better resilience in supply chains? Is it completely outwith our control? Is there nothing we can do? Are the levers to make the decisions all in the hands of the UK Government? Perhaps I can bring Barry McCulloch back in on that.

Barry McCulloch: In some ways, we need to distinguish between short-term solutions and—as Dave Moxham mentioned—medium-term and longer-term interventions. We can combine the labour shortages and supply chain issues, because they are related. On the labour side, we could look at short-term measures to alleviate some of the immediate burden, in particular regarding HGV drivers—for example, by bringing in temporary EU workers and clearing up training backlogs.

In the longer term, there is a discussion to be had—as committee members will probably acknowledge—around the education and skills system in that mix. We spend more than £3 billion every year on that; we absolutely could better connect the supply of labour and the skills that are coming into the labour market with the demand that exists.

On local supply chains, there are currently a lot of discussions about how we might build up local suppliers. As has been touched on, there is a variety of issues and there are shortages of things, from glass bottles to glucose, across a wide range of industries including whisky, food and drink, hospitality and construction. The Scottish Government ministers are, in some ways, in a tough spot, but we encourage them to think seriously about how we might build local supply chains back and make them much more effective.

That ties in with conversations that we might move on to later regarding procurement and how the Scottish Government can provide more economic and contractual opportunities for local

businesses. As members will probably have heard FSB Scotland say before, Scotland's track record in that regard, in terms of awarding public contracts to microbusinesses, is really not good enough.

Colin Beattie: Just to—

The Convener: I apologise, Mr Beattie, but a number of members are interested in the subject, so I will move on, if you do not mind. If witnesses have a response to Mr Beattie's final question, they can wrap it up in their next response. I hand over to Jamie Halcro Johnston.

Jamie Halcro Johnston (Highlands and Islands) (Con): Good morning. To give you all a heads up, I point out that I will ask Charandeep Singh then Barry McCulloch about the supply chain issue. I would like clarification. We talk about the supply chain as if it is one all-encompassing thing. Of course, some of the shortages that we are seeing are in manufacturing or production at source—for example, there is a lack of production where some products are created.

I want to split the two and look at the supply infrastructure. A number of issues have been raised to do with the impacts of Covid and Brexit. Some of the problems do not relate only to the lack of drivers in this country. There is a shortage of HGV drivers across Europe, so it is not as simple as opening up access to the market and hoping that we will be able to attract people to this country. I am looking, first, for views on that.

The labour shortage is one issue, but there are other issues relating to what I call supply infrastructure, such as people being away on summer holidays and people being forced to isolate and, therefore, not being able to go to work.

The question of what we, as a Scottish Parliament committee, and the Scottish Government can do has been asked repeatedly. We will come on to procurement and business support. Is the aim to make our supply infrastructure more localised and to be able to produce more in Scotland, where we can? Should that involve creating an environment of business support to encourage more Scottish businesses to supply our own markets?

Charandeep Singh: A lot of your points are exceptionally sensible and valid in relation to your interpretation of what is happening in the economy. We should invest in and support local supply chain development and the resilience of those supply chains. The Scottish Government has a role to play, and it is starting to do that through Ivan McKee's portfolio. We need to involve the private sector and to learn from how it has been dealing with such issues. The Government needs to consider whether it could

alleviate some of the issues, and it needs to use the private sector's infrastructure locally and internationally to provide joint working. There needs to be shared problem solving, because the problems are shared and we need to work on them together.

The issue with HGV drivers has been affected not only by the pandemic, because tests have been cancelled or delayed, but by Brexit. You are right to point out that there are also issues in the European Union relating to availability of labour, whether workers are skilled and whether they pass their tests. From a business perspective, we need options when recruiting. The fewer options we have to access the talent pipeline and skilled individuals, the more pressure is created for businesses, and the more stressed managers and business owners will become. Our job is to ensure that businesses have options. Those options can be from any country. They do not have to be from the EU, although it is one route that we have had for many years.

The issue should not be a focus for only the Scottish Government; it is UK wide, so a practical solution would be the establishment of a joint forum with the appropriate UK and Scottish Government ministers, so that a joined-up approach would be taken. We would like that to happen because businesses are working collaboratively. Scottish businesses are talking to businesses in the rest of the UK, and vice versa, and business associations across the UK are talking to one another, so why are Governments not doing the same? That is our suggestion for how the matter can be taken forward, so that Governments have an opportunity to provide solutions to the problems that businesses are currently dealing with on their own, to a large extent.

Barry McCulloch: I agree with a lot of what Jamie Halcro Johnston said. I will respond point by point. More diverse local supply chains create more resilient economies. That is absolutely the case, and we have been arguing that for at least five or six years, because, in adopting that approach, we provide more economic opportunities for local businesses, more wealth is retained in communities and we become much more of a wellbeing economy; it ticks so many boxes. The crisis was a bit of a wake-up call, in that we had not been doing a great deal of that. We had been going for scale and pulling contracts into big lots. On the public procurement side, there is a lot to do and a lot to catch up on.

On the labour market side, taking cognisance of the fact that, at the moment, about a third of employers are experiencing shortages, there is a lot more that the Scottish Government and its agencies can do and can control. We will provide

more detail on that to the committee in the context of our recovery plan. To take it step by step, there is the ability to make schemes such as the young persons guarantee work more effectively. We are not really connecting the ability of local employers to create jobs with the wage subsidies that are already in the system—wage subsidies, I would add, of up to £8,000. We are not doing that. We have been talking to the Scottish Government about that for some time, and there are some practical steps that could be taken to better connect us.

Secondly—I know that Jamie Halcro Johnston will be very aware of this—there are more structural issues, particularly in more remote and rural areas, that prevent employers from getting the staff that they need, including, most notably, the lack of staff accommodation. Again, we have been talking about that issue for some time. There might be demand for people to relocate and to move up to the Highlands and Islands, but there is nowhere for them to stay. In our paper, we will put forward the idea that we need to fast track support for the construction of employee accommodation in rural and remote areas to knock off one of the structural issues that prevent our members and other employers from creating good local jobs. I will leave it there. We could talk at some length about the role of skills agencies, the investments that we make and the effectiveness of those measures.

Jamie Halcro Johnston: As a Highlands and Islands MSP and someone from Orkney, I could talk about rural housing and infrastructure all day long, but I will not. I am conscious of the time and the fact that other people want to come in on that subject.

I want to ask Charandeep Singh and Barry McCulloch about the cost of supply infrastructure. I spoke to one importer who had been paying just under £1,000 for a container. In the middle of the pandemic, it went up to around £18,000, and it is now down to about £5,000 or £6,000. Can you give me an idea of the impact of that cost? It would perhaps be helpful if Carolyn Currie could also comment on that.

Charandeep Singh: Any increase in costs, whether in the supply chain infrastructure or elsewhere, will have an impact on businesses. That cost must either be passed on to the consumer or the buyer, or absorbed into the business, which reduces profits.

Your example is perhaps unique, because, last year, we were faced with the situation of trying to make the economy function as much as possible in the midst of the Covid restrictions. However, there was also one-of-a-kind demand from the public sector, which required storage facilities, transportation and logistics because of the

pandemic requirements relating to testing infrastructure, the delivery of vaccines and so on. We assume that that will start to ease in the coming months and years, but that does not negate the fact that the pandemic has shone a light on the importance of supply chain infrastructure logistics. From our perspective, that sector is paramount—we are talking about lifeline infrastructures. If we do not have storage facilities or the right roads for the weight of HGV trucks and lorries, we will be stuck. It is important that investment is made in such areas, and they should get serious consideration in the upcoming Scottish budget.

There could be issues now and in the short term with prices—of containers, for example—going up in some of the supply chain infrastructure. There is a risk that small and medium-sized enterprises could be priced out in the future. We certainly have examples of that from during the pandemic, through which we have experienced real issues. Some of those will ease as we come out of it; others might exist for some time to come. The issue is one that deserves additional scrutiny in the coming months and years.

11:00

Barry McCulloch: Jamie Halcro Johnston made an astute observation. There is an issue with not just getting materials into the country but getting them around it, as he knows all too well. There are big problems with that, both in our transport infrastructure and in the availability of staff. It follows logically that costs going up could choke off recovery. We already know that costs have gone up for two thirds of our small businesses in the past quarter. Were that to continue, they would have to absorb those cost increases and pass them on to customers, or have their end profit levels reduced, which we do not want to happen. We have to keep that in mind as we move towards the economic recovery transformation project that the Scottish Government is undertaking, and the budget.

Given our trading conditions and everything that Jamie Halcro Johnston has pointed out, it will be important for the Scottish Government to control the costs that it passes on—for example, in the context of non-domestic rates. It is going to be important for the Scottish Government to identify ways in which it can support businesses through controlling costs. It may have schemes in process that could affect the cost of doing business, or it could help businesses to establish more local supply chains or to recruit more people locally.

Carolyn Currie: Some good points have already been made. My first point is about whether we understand what our current risk is—and what our risk appetite is—within the supply chain. That

is not particularly clear to me, which is why I ask the question.

On market and opportunity, Barry McCulloch made impactful points about a double benefit from the SME community. One benefit is that, if we can get more SMEs into the supply chain, that helps with supply chain diversity. The other benefit, exactly as Barry outlined, is to the economic opportunity within communities. That is critically important for us as a nation, especially in our more rural areas. That will be close to Jamie Halcro Johnston's heart.

We all know that housing is an issue when it comes to the rural economy in particular. We have heard that, even when housing accommodation is in place for workers, they are not returning to the jobs that they once held. That goes back to Dave Moxham's point about low-paid sectors and unsocial hours. People are choosing not to go back to those types of jobs. That creates issues for businesses that, it is important to say, are trying to address those things.

My other point is that, in rural areas, there is often a lack of higher-paid jobs in higher-value sectors. One solution is to run programmes to engage people in business start-ups. At the start of this year, we ran programmes to engage women in creating businesses. The women who took part would never have thought about starting a business had it not been for those programmes, which have been really successful in engaging people who were at a distance from the economy and getting them economically active.

The data shows a high engagement with regard to participants starting up businesses, but I want to press the point that business start-up programmes are not just about starting up a business. They offer people the opportunity to gain skills, to keep vital existing skills alive and, potentially, to go back into employment when such opportunities come up, and I urge the committee to look at business start-up and business support as key tools and levers to help our economic recovery.

Jamie Halcro Johnston: I think that the issue of business support is about to come up, so I will pass back to the convener.

The Convener: Before I call Gordon MacDonald, I note that four members still want to ask questions. I know that the conversation has been wide ranging, but I would appreciate it if people could keep their questions and answers concise.

Gordon MacDonald (Edinburgh Pentlands) (SNP): We have talked an awful lot this morning about the supply chain, which relates to the import side of things. The fact is, however, that many SMEs in Scotland export—and predominantly to the EU, which accounts for 83 per cent of exports.

We know about the issue with HGV drivers, but what other issues do exporters face? Is there anything within the Scottish Government's remit that would allow us to ease that situation? Scottish food and drink exports, for example, have risen substantially in recent years, but I note that, according to a British Chambers of Commerce survey for the second quarter of 2021, 73 per cent of exporters saw no export growth and 28 per cent had reduced export sales. There is clearly a problem here. Some of it is related to HGV drivers, but what else is blocking the system?

Perhaps Charandeep Singh and Barry McCulloch can comment first, and then we can hear from the other panellists.

Charandeep Singh: This is a critical area for Scottish Chambers of Commerce; indeed, for many years, we have prioritised boosting Scotland's exports to markets across the world. I think that it is important to talk about some of the opportunities and positives before we get into some of the challenges. You will be interested to know that, in partnership with the Scottish Government, we run the international trade partnership programme, which focuses on supporting not only small businesses but new-to-export companies in looking at markets across the world. We run an annual programme of trade missions through the international chambers of commerce network, but through the pandemic year, we switched all our missions to virtual ones, which was something new that we had never done before. During the pandemic, we ran more than 20 trade missions with more than 500 Scottish businesses that were looking to export, were excited about exporting and wanted to continue with the exporting journey. In fact, in the pandemic year, we were able to sign nearly £10 million-worth of deals for those Scottish businesses, with a further £10 million in the pipeline.

The purpose of my sharing that is to show that there are opportunities out there. We need to ensure that the businesses that are ready and willing and want to access those new markets are supported on that journey and are able to speak directly to international buyers about their products and services. Perhaps one of the issues that has come out of the pandemic—perhaps it had arisen even before that—is that many companies that are looking to export might not be speaking to the right people, might be going to the wrong market and might not be speaking to or connecting with the right buyer. Business needs more ability to have direct contact with the right market for its products and services. The Scottish Government, Scottish Development International and other agencies help with that, but we need to involve other organisations, including chambers of commerce, to ensure that we are targeting as many markets

as possible. After all, that will be an important lever for economic recovery.

Indeed, it is important to point out that exporting to international markets must underpin our economic recovery and that it features heavily as an economic growth lever with regard to future economic and business resilience. There are plenty of statistics that show that any business that exports is much more resilient in times of crisis, whether a health or a financial crisis. We need to do more about that, and we will certainly be playing our part to ensure that that happens.

As for some of the challenges, travel was a big problem through the pandemic, and it continues to be a problem. I think that, as international travel continues to be restricted, we will see issues around exports. We are not able to get to many of the markets that have potential in person, but the cultural approach to exporting and business deals is very much in person, and we would want to address that quite quickly—but also safely. We are in a pandemic and a health crisis, but we need to ensure that the pace is picked up in that area.

In addition to that, there is the cost of exporting before the deal is signed. The process can be quite costly. There is a Scottish Chambers of Commerce initiative that involves a virtual meet-the-buyer approach, which is followed by meeting in person to seal the deal. Those concepts should be much more widely used. That gives support and reduces the initial cost that could be incurred for exporting.

Additional policies related to exporting should be addressed, too. That could include putting air departure tax back on the table and having a serious conversation around our tax policies and the role that they can play in enabling exporting. Those are some of the key areas that we need to consider for exporting.

Gordon MacDonald: Looking at some specifics, Barry, we have seen an increase in minimum-carriage-paid orders and so on, as well as signed health certificates. Is there anything in the Scottish Government's remit that we can do to open up the export market?

Barry McCulloch: I will not say too much; Charandeep Singh eloquently made a series of really good points. All I would say, from the point of view of SMEs, is that the majority of small businesses do not export in the first place—around 15 to 20 per cent do.

Going back some years now, the economic value of small business exports has been decreasing for some time. Frictions were increasing, even during the transition period and beyond. There is definitely something to look at regarding export health certificates. Industry colleagues and I have been dealing with that

particularly in the context of local authorities and their role. It might seem to be a slightly banal point but, as regards what is in our control, we can definitely standardise those costs for a start and ensure that there is a focus on cost recovery.

Likewise, there is a policy discussion to be had about how we can get more smaller businesses to export and take advantage of the opportunities that will come up in the future.

Gordon MacDonald: , I was wanting to ask Dave Moxham about this. We have spoken about HGV drivers today. I noticed that the John Lewis Partnership has given an increase of £5,000 a year to its 900 HGV drivers. There are also sign-on bonuses of £3,000 for British Gas engineers, with £500 for G4S security officers. Although we have to improve the salaries of many individuals, how do we do that in such a way that we do not get inflationary increases that then have an impact on economic recovery?

Dave Moxham: I am not absolutely convinced that some level of inflation, particularly in the short and medium term, is the major issue that we face just now. Obviously there are times in an economic cycle when one has to be particularly concerned about that, but if we have a period of some inflation because we have a significant return to growth, that would not be an enormous problem.

It is kind of difficult for us because we are told that, when the economy is beginning to do well, we have to worry about pay because of inflation; when it is doing badly, we have to be worried about pay for other reasons.

The truth of the matter is that, at this point, for workers' wages to rise is entirely what we need to boost spending power in the economy, particularly where that boosts spending power in local economies. We have not even touched on the local retail sector yet, or on some of the other parts of the foundational economies that are there to keep our towns going.

Obviously, there is always a limit to how much workers' wages will rise by, and there will always be impacts, but at this point in time, seeing the wages of workers—particularly lower-paid workers—rising and local economies being boosted is the opposite of a problem; it is actually exactly what we need.

11:15

Carolyn Currie: I would point to structural inequalities in terms of women's access to international trade. That is a serious issue. Women tend to run smaller businesses. You have seen the grant data, so you will know that they tend to lack access to finance, and businesses

need that structural capital in order to be able to trade internationally in the first place, and they need to have the networks in place in order to get the insight and expert information on the opportunities that are open to them.

On opportunities, I would point to the opportunity to run dedicated women's trade missions. I have already talked about our vision for a women's business centre model of operation. My colleagues who are operating those centres internationally would be interested to trade with us on that basis. There are huge untapped opportunities for some of our SMEs in that area, so I urge you to look at those opportunities and the levers that could be activated.

Colin Smyth (South Scotland) (Lab): I want to discuss business support, which was touched on earlier. I suspect that all the witnesses might have views on that, so I invite them to answer in the order in which their names appear on the agenda, kicking off with Barry McCulloch.

What are your thoughts on how the economic development agencies—Scottish Enterprise, Highlands and Islands Enterprise and South of Scotland Enterprise—have performed over the past 12 months? I know that much of their work has been around administering grant support, but apart from that, has their response met the needs of businesses and workers, and has that response told us anything about the changes that we might need to make to the ways in which our agencies function?

Barry McCulloch: First, we should reflect on the fact that there has been an extensive range of business support measures for the sector over the past 17 months. In Scotland alone, there has been £2.8 billion in grants, not to mention the rates relief packages. Of course, as our submission states, the situation has not been perfect. There are lots of lessons to be learned in relation to future business support, which we must not lose sight of as we move into the new phase.

On the agencies, we want to see a commitment to continuous improvement. There are things that went well during the crisis and there are things that showed up the deficiencies in our business support structures, including measures such as using the non-domestic rates roll as a way to identify where businesses are.

With specific regard to Scottish Enterprise, from discussions with colleagues there, I know that they accept that the agency was not visible enough and was not in sufficient contact with trade body leaders. In some ways, when we were in the middle of the crisis, Scottish Enterprise was not there. It is important that we think about what we can do about that and what we can do differently

as a result of the massive investment that we are talking about.

For us, it is about encouraging more businesses to use our great public support. It could not be simpler; it is about making it more accessible and more user focused. That goes back to some of the points that we raised in the context of the enterprise and skills review of 2016, but which we have not delivered. The system is still too complex and prone to duplication, but there is a real opportunity, particularly on the digital side, to streamline a lot of that, and I know that the Scottish Government is looking at how we digitise the system.

To touch on Colin Smyth's point, one of the real success stories of the crisis has been the ability of small businesses to use digital technologies to adapt and pivot to new markets and deliver new products and services. With the recent launch of the digital boost grant, there is a lot of room for optimism as we bring together our digital and traditional enterprise and skills initiatives. If we bring those together in one place, where they are focused on the needs of local businesses, we could do a lot of good.

Colin Smyth: I do not want to put you on the spot, because you might not have spoken to all your members across the country, but to follow up on that point, did any of your members notice any difference in approach between Scottish Enterprise and the Highlands and Islands Enterprise or South of Scotland Enterprise agencies when it comes to support for small businesses?

Barry McCulloch: Nothing like that came to our desks. In that context, we should not lose sight of the important fact that it was local authorities that were there for the majority of businesses; councils were delivering at least dozens of support schemes. Once again, the support was not perfect, but let us remember that there were more than 100 business support schemes and, in total, £2.8 billion was spent. It was local authorities that were actively and practically delivering that support in partnership with FSB and other trade bodies.

Colin Smyth: The same question is also for Charandeep Singh.

Charandeep Singh: It is important for us to share that the enterprise agencies pivoted very quickly to administering grant support and being a point of contact for businesses through the pandemic. There was the establishment of the business support helpline as well. There were lots of touch points for businesses to use when it came to the enterprise agencies. We have some data around the three separate agencies—Scottish Enterprise, Highlands and Islands Enterprise and

South of Scotland Enterprise. I do not have the information to hand now, but I am happy to share it with you after the meeting. We got the data from the chambers of commerce in those regions, through their membership engagement.

It is also important for everyone to understand that businesses have a preference for how they access information and who they go to in times of crisis or when they need to unlock a problem. Sometimes, they go to chambers of commerce and, sometimes, directly to an enterprise agency or trade association. During the pandemic, we uncovered the fact that many of our members were going directly to chambers of commerce or trade bodies that they were members of, rather than the enterprise agencies. There is probably an opportunity for development there with regard to making sure that, when it is right to do so, the enterprise agencies involve, include and partner with trade bodies and associations, particularly if businesses are going to those bodies first in order to seek information or unlock issues.

From our experience, when businesses or sectors struggled to access grant support, all the enterprise agencies were very responsive to dealing with those issues, so I can only commend their efforts, particularly in the initial months of lockdown when grant support was in its early days of development. That also applies to the local authorities and the Convention of Scottish Local Authorities.

However, as we move forward, we need to understand that many of the individuals and colleagues in the enterprise agencies who were dealing with those immediate responses had been deployed from other departments and units. How will that support be administered in the future? Will those grant support departments and helplines be closed? Will we hire more people to pivot the support that businesses need with regard to restart, reopening and recovery? Those are the areas that we are looking at but we would welcome more formal interactions with enterprise agencies, particularly as businesses tend to come to trade associations as a first point and a go-to.

Colin Smyth: Thank you—it would be helpful to have that data on the differences.

Have members of Women's Enterprise Scotland reported similar issues with the enterprise agencies?

Carolyn Currie: Yes. We need to ask ourselves what our vision is for women-owned businesses in Scotland and what the role of the enterprise agencies is in that arena. The data that we have published gives one insight into the grant support. I emphasise that that data should be regarded as a tool for change. It gives us insight into where support is needed, and it should be used to inform

the development of our enterprise agency support services. It is important to say that.

From our members, we hear continual references to what is a pretty leaky pipeline of support, particularly around growth businesses. Particularly for women-owned businesses, the issue of gaining access to Scottish Enterprise services is a serious concern. There are structural inequalities in the system, and the pandemic has simply highlighted and exacerbated those. For example, women tend to set up businesses in sectors that do not directly align to the enterprise agencies' appetite for sectoral support. The agencies look at key growth sectors such as technology and low-carbon industries, but women are setting up businesses in areas such as the beauty sector. That is a multibillion-pound industry, and businesses with serious growth opportunities are setting up in it. They are trying to realise those opportunities, but all too often they do not have the key support that could be made available from the agencies. There are issues to be addressed there.

I absolutely echo Charandeep Singh's call about working together with the agencies. I would even go slightly further and say that it is vital for our economic recovery and economic ambitions that organisations such as mine and chambers of commerce have strong relationships with the enterprise agencies and with the civil servants. It is important that we are in close contact and regular dialogue, but that is simply not happening at all at the moment in our case. That results in missed economic opportunities and in our potentially not investing as wisely as we could in initiatives that will transform our economy.

I again highlight the need to train advisers in the provision of gender-aware support. We need trained professionals who understand how women's businesses operate in order to provide the best-quality support possible. Connecting us all is vital because, otherwise, some of the support that could be provided if we were better connected will simply leak out.

Colin Smyth: I ask the same question of Rose Marley. I recall that, when the legislation to set up South of Scotland Enterprise was going through Parliament, I moved amendments to try to get specific references to supporting co-operatives as one of the agency's aims. I declare an interest as a Co-operative Party MSP. What is co-operatives' view of the support from enterprise agencies, including during the pandemic?

11:30

Rose Marley: That is an important point, because there is a major opportunity for Scotland to build back better through the circular economy

and by investing in its local communities. There are some brilliant examples of that. Actually, Scottish Enterprise has been one of the best agencies in the UK at understanding that point, although there have been technical difficulties with things such as eligibility for grants and criteria for loans. That reflects the general lack of understanding across all business about the co-operative model. That is really pertinent to Scotland, and although just 0.2 per cent of businesses are co-operatives, there are brilliant examples.

I was less vocal earlier because, on things such as imports and exports, co-operatives are not experiencing anything much different from what the other witnesses have outlined. Actually, we have been faring quite a bit better, because we have resilience and international export and import relationships because of how the model works, with organisations working together—that includes federal co-operatives.

On business support, our top request is that such support is assigned to the co-operative model, because it is proven to deliver in relation to fair tax, gender equality and fair wages. It has also been resilient during the pandemic. The efforts that have been put into that should be reflected in the general budget. Take last year's budget. If £1 million is put into the enterprise agencies and the Scottish National Investment Bank, we will reap the rewards in the long term in terms of business resilience and workers' conditions.

That is the general request that we would make for Scotland. We have worked with the Greens, because we know that the co-operative model is proven across the UK. Although £40 billion is put into the UK economy, the figure is just £1.5 billion in Scotland. However, for example, the islands have the highest number of co-ops per capita. They are a really resilient way to build communities. This is a real opportunity for Scotland to address what businesses can do to build back better and invest in the long term.

Colin Smyth: Is the prevalence of co-ops in the Highlands and Islands related to any work that Highlands and Islands Enterprise is doing, or have other factors contributed to that?

Rose Marley: I am sorry, Colin, but the connection broke up slightly. Can you repeat the question?

Colin Smyth: You mentioned the prevalence of co-operatives in the Highlands and Islands. Is the agency in that region doing anything specific that is perhaps different from what Scottish Enterprise is doing to enable that to happen, or have other factors contributed to that?

Rose Marley: It is all those factors working together. Development in the Highlands and

Islands is up by 2 per cent. A lot of that is to do with the growth of community shares as a way to raise funds, an example of which is the Isle of Eigg Brewery, which raised its funding to set up the brewery through community shares. There is general growing awareness that that helped to create employment on the island.

That brewery is a relatively small business. If you look at co-ops such as Scotmid Co-operative, which turns over £490 million a year, at what is happening in agriculture in terms of the supply chains and the resilience of the likes of Greencity Wholefoods, and at what is happening in the high streets, you see that there is a general growing awareness about proof of concept. That is what people want right now—the pandemic has really highlighted inequalities and people want to address that. Take Heart of Midlothian FC. It is fan led and community owned. People are demonstrating, through football, what they want to see more of.

However, business support is not provided in equal terms for the co-op model, and there are definitely issues around some of the enterprise agencies' understanding of it.

Colin Smyth: That is very helpful. I put the same question to Dave Moxham, and I ask him to respond to my second question, which is about the conditionality of business support. I think that, previously, business support in general focused on the number of jobs created, turnover and growth targets. However, during the pandemic, I have been struck by how little conditionality has been attached to the grant support around jobs and the removal of the furlough scheme. Is there a need to consider increasing conditionality when it comes to business support in general? Do we need to consider not just jobs and turnover, but fair work, inclusive growth, the transition to net zero and many of the other issues that we need to start bringing more to the fore in the support that we give to our business sector?

Dave Moxham: You gave so much detail in your question that I am tempted just to answer yes, because I agree with most of it. However, I will unpick that a little bit.

It is fair to say that we pressed Government on a number of occasions in the last period to ensure the maximum possible conditionality with grants, and were not always successful. I will caveat that slightly by saying that we also recognised that it was a fast-changing situation, with uncertainties in relation to what the UK Government was doing. There was therefore an understandable imperative—to some degree—to get the money out the door, because of the fast-changing situation.

Having said that, the big lesson to learn is the one that you alluded to, which is that the enterprise agencies should look at what happened over the past year, look at what is still unfolding—because there will still be business grants—and look to the future and ask what the factors are.

Many of the factors that we want to take into account already exist, such as the Scottish Government's wellbeing agenda and its commitment to community wealth building and the living wage and so on. However, I am not sure that those are locked together in terms of the enterprise agencies' mission and what the Government says is part of its mission.

Some of that comes down to identifying more clearly what the levers are, some to more monitoring, and some to business education. We are not arguing that the sectors that have been supported in the past period have—in all cases and for all employers—been trying to do the best. Some have been gaining unfair competitive advantage over other businesses who were trying to do the right thing, if you like. We need a clearer understanding of the expectations of businesses that receive support from enterprise agencies and other Government support.

You are correct to identify the growing number of factors, including the local supply chain and—critically—a just transition and meeting climate change targets. I understand that many people in business will say that that sounds like an awful lot of red tape, but we need to find some way to link the Scottish Government's stated high-level ambitions for a wellbeing economy with what that looks like when it comes to spending its own money.

Colin Smyth: Thank you very much for that. It was not a leading question, because I knew that you would be very balanced and talk about the practicalities and challenges.

I do not know whether Barry McCulloch and Charandeep Singh have particular views—

The Convener: I am sorry, Mr Smyth, but we are a bit pushed for time. Dave Moxham's answer related to the next questions, which will be asked by Fiona Hyslop. I will hand over to her, and I am sure that she will cover the area that you were about to address.

Fiona Hyslop (Linlithgow) (SNP): I thank Colin for teeing me up.

Hello everybody. As the first evidence session of this committee is in the realm of scoping and scene setting, and as the committee will be interested in the transition to net zero and the wellbeing economy, your responses and focus in those areas at this stage will—by necessity—have to be top line.

I am struck that we have heard that many businesses are still in survival mode. In addition, we have a planet that has to survive, and we heard in Michelle Thomson's question about the debt issues that many small businesses are facing. That all comes at a time when, in order to achieve net zero, there will have to be investment in heat and transport and in relation to the demands of consumers for net zero delivery of services.

What practically can be done? How do we commit ourselves to the bigger, overarching Scottish agenda of that transition and wellbeing? What would be your messages to the committee, in order for us to focus on what can make a material change? Bearing in mind the gain that businesses will have in reduced costs in the long term, business investment might lend itself to interesting models of finance to help small businesses. However, how can that be done at the same time that businesses are trying to survive, when they are carrying a lot of debt?

Dave Moxham just spoke about some of that wider agenda, so I will come to him at the end to pick up on some of the issues that he did not cover in his last answer. I will go to Charandeep Singh first on that, then to Barry McCulloch, Rose Marley and Carolyn Currie.

Charandeep Singh: You are absolutely right. You will recall the many conversations that we had during the pandemic and pre-pandemic on all those matters, particularly around business support and economic growth and, most recently, the net zero agenda.

You have captured the important thing to note very well, and you are right that businesses are still in survival mode. The messages that we are getting from the Scottish Government and various other Governments around the world are about the continued potential impact of the pandemic and what that might mean for restrictions and how we operate in economies and local communities. We are still in survival mode; we have not moved away from it as quickly as we would have liked and we need to be mindful of that.

From our perspective, businesses need a fundamental support mechanism. There are great examples before our eyes of businesses and companies embracing the net zero agenda, particularly ahead of COP26. However, we need to see that embracing of net zero and the excitement about COP26 being applied to the wider Scottish business base, and we are not seeing that at the moment. We need much more practical support from the Scottish and UK Governments in the lead up to COP26 and after COP26, so that its legacy will be that we make sure that businesses are following the agenda and that they have the opportunity to collaborate on

the targets. There is a danger that the targets are being imposed on businesses rather than agreed with them. The fact that businesses are still in survival mode needs to be balanced with the long-term goals and ambitions that the Governments set out.

I would say that we are quite far from making that partnership journey with the wider Scottish business base, but it is still not too late to rectify that and make sure that businesses have the ability to take that journey. Some of that will be about resources, advisers or funding. A whole host of areas will need to be explored in detail to make sure that businesses have that ability. They have aspirations and ambitions at the moment, but not enough practical steps are being taken to help us to meet those ambitious targets for Scotland and, I guess, the wider UK agenda on climate change.

Fiona Hyslop: I am conscious that this is a massive area, convener, so I suspect that people might be required to follow up in writing after the committee meeting.

Barry McCulloch: To address your question directly, I say that I am not sure that businesses can be in survival mode and also make the transition to substantial decarbonisation. I just do not think that they can do it, and if they can do it, they will need extensive public support. That goes without saying. We are circling back to the points made by Michelle Thomson and others about how we learn the lessons of the past 17 months. In many ways, we have seen the small business community at its best. It has been highly resilient, but some fragility has been exposed.

In identifying those fragilities and cash-flow issues, we are going to have to think seriously about how local businesses make the transition to a net zero economy. The Scottish Government will have to make some really big decisions in that context. It is about making it practical. We know that 75 per cent of our members view climate change as an important issue, but they are less clear about what they should do.

The road map is not anywhere near clear enough and the support is not at the targeted practical level that we need in order to talk small business owners through things, whether they are looking at their transport, the skills side, decarbonising their heat or making their buildings more energy efficient. Given that the transition will cause substantial change and disruption in the economy, notwithstanding the opportunities, we are going to have to think really clearly. Before the pandemic, we relied on loan schemes, but I do not sense an appetite for future debt finance. To achieve net zero, we are going to have to have a serious look at what grants can be provided to help business owners.

As they make the journey, we could also make efficiencies. While we are upgrading businesses premises, we could do homes at the same time and take a real neighbourhood approach to making our buildings more energy efficient.

Our key point at this stage is that, although small businesses have bought into it and understand it in a strategic sense, they are unclear as to the steps that they need to take, and they perhaps do not sense the urgency in the progress that we will have to make during the 2020s in order to make our 2045 target a realistic proposition.

11:45

Fiona Hyslop: Is it okay if we go through the other witnesses, convener?

The Convener: Yes—if the responses could be concise, that would be helpful.

Fiona Hyslop: Carolyn Currie can start, followed by Rose Marley.

Carolyn Currie: I will be brief. Women represent a highly motivated community. They tend to take a more holistic approach to business success, whereas men tend to focus more on traditional transactional business measures such as profit. Net zero falls right within that wider viewpoint of what success and the concept of good look like.

There are some tools that we can use that do not relate only to funding access, although that is inevitably key. They include, for example, role models who can talk about the practical approaches that they have already taken in their businesses. We have used a role-model approach to women's entrepreneurship, which has really helped businesses at the early stage of starting up, and what we are discussing is exactly the same.

Outwith my WES role, I chair the board of the new Productivity Institute in Scotland. Our first event tomorrow will focus on practical productivity, because productivity is a big, hairy complex area. We know that businesses see it in that way—they find it too complex, big and difficult even to engage with, so we are trying to break it down. Net zero has many parallels in that regard; we can try to break it down and focus on the role models who are already making changes.

As COP26 is coming up, we are working with businesses that have already implemented quite simple changes in their everyday business operations. We need to get those stories out there in order to get businesses to engage now, and try to break through at a time when—as Barry McCulloch was spot on in saying—they have absorptability issues because of everything that

has gone on. There are opportunities to try to break through. For example, we are working with STV to try to get more businesses that have taken those practical steps—there are more women, of course—on to the television to broadcast some of those successes.

I will make another point, because Fiona Hyslop mentioned wellbeing. I really think that wellbeing is a key issue for businesses as we move forward—it is absolutely critical. We are currently seeing only the tip of the iceberg in terms of businesses and their mental health, and all the wellbeing issues that go with that. This has been an incredibly tough time, and many businesses have not yet stopped for long enough to feel the full impact. That is coming, and it is imperative that we line up some wellbeing and mental health support in place. As business sector organisations, we will do our best, but we really need help on that.

Fiona Hyslop: Does Rose Marley have any top lines on that? Dave Moxham can then address anything that he did not cover in his answer to Colin Smith.

Rose Marley: I will give you our top line on net zero. The Scottish Government has been a leader in that. To touch on the point about investment, energy opportunities and community shares have worked really well in that arena—for example, by creating wind turbines from the local community. If we could make a request, perhaps the Scottish National Investment Bank could encourage some of that through booster shares. In England, we have community booster shares, with a pound-for-pound match in those types of programmes.

Retrofitting business co-operatives are also really strong. As Carolyn Currie pointed out, we need to consider wellbeing, and investment as well. A lot of work is being done in employee ownership conversion, where businesses are struggling and employers want workers to take on more of the business. That is an area that the Scottish Government could develop a lot more.

Dave Moxham: You will be glad to know that it will be a 30-second reply from me. There are two headline areas. The general one, as Fiona Hyslop will know, is that we must not take our eye off the ball of the potential benefits in the journey ahead to net zero. We might not have always hit our targets in the past, but there were still first-mover opportunities for us in a range of technologies. Those might not be tomorrow's recovery technologies, but we cannot afford to look at it simply as a question of what happens in the next couple of years. Certainly, in renewables and energy generally, there is a range of opportunities for small and large businesses that we must keep some focus on, as well as some immediate opportunities for job creation in retrofitting and transport. We need to tell a positive story about

some of those opportunities for businesses as well as talking about some of the inevitable difficulties.

The Convener: I will bring in Maggie Chapman, who has a brief question to close the evidence session.

Maggie Chapman (North East Scotland) (Green): I thank the panel of witnesses for their comments so far. To build on Fiona Hyslop's question, I am interested in how we look at economic recovery in the context of our broader and wider economic strategy, with a view to the wellbeing focus that Fiona mentioned, and in the intersections of worker wellbeing in all that, because we cannot have a resilient economy if our labour force is not fit and able to do the work that it needs to do.

In Rose Marley's opening remarks, she mentioned that, generally, co-operatives have fared much better than other forms of business. Could you say a little more about that and, in particular, how that relates to employee wellbeing and employee mental health? I am also interested to hear from Dave Moxham and possibly from Carolyn Currie, as well.

Rose Marley: The idea of one member, one vote in co-operatives means that people have a stake and a say in where they work, where they live and where they consume. That naturally improves employee and worker wellbeing, just by virtue of the fact that people can have a say on their conditions in, for example, a worker co-operative. The idea of wellbeing that is directly related to business development, which you touched on, is really strong in the co-operative sector. That is why we are looking to the Government and asking why co-operatives represent only 0.2 per cent of the business model across Scotland, when we can see the gender equality and diversity in that model, which contribute to greater wellbeing.

There is a point to be made about long-termism. Because of the way that co-ops are structured and funded, you do not have venture capital trying to pull money out and make short-term decisions. That is where the point about resilience during the pandemic comes in, because people are in it for the long term. As members of a co-operative, they have a greater opportunity to make a difference, create resilience and make decisions for the long-term future of the business and for themselves as employees, customers or tenants of a housing association, for example. That is inherent in the model, and we believe that Scotland has a real opportunity to invest in that to build back better.

Maggie Chapman: Does Dave Moxham want to come in on that and, in particular, on what the committee and the Parliament need to think about

with regard to the intersection of labour force wellbeing and economic resilience?

The Convener: It appears that Dave Moxham has had to leave the committee early. You suggested that you would also like to hear from Carolyn Currie. We will close the session after that.

Carolyn Currie: You will not be surprised to hear that that is high on our agenda. I will begin with my Productivity Institute hat on. Our first event is tomorrow. We have asked businesses what their key productivity issues are, and I understand that the most common issue that has been raised is flexible working and the balance between working from home and working in the office. We are hearing that from workers and from employers, but we do not yet know what the solution is.

Different groups of people have different preferences for work patterns. For example, young people and women can be taken out as key demographics in that critical mass of workers. We have a huge opportunity to improve workers' wellbeing and the economy if we get the transition right and find a way to better meet the needs of women, in particular, in relation to how and where they work. I wanted to flag that up.

I have already alluded to the conversations that Women's Enterprise Scotland is having with women business owners—[Inaudible.]

The Convener: I am afraid that we appear to have another technical issue. We can—

Carolyn Currie: I am sorry. I do not know what that was.

The Convener: We did not quite catch the end of what you said. If you would like to wind up, we will hear your final comments.

Carolyn Currie: That is already hitting a proportion of businesses. After the financial crash, there was a huge increase in the number of women who turned to self-employment simply because they could not get employment elsewhere. There are issues with that relating to financial wellbeing. A good deal of research has been done on women's financial health following the move from employment to self-employment. I am conscious of the time, so I can send that to the committee after the meeting.

The Convener: Thank you. That brings us to the end of the evidence session. I thank all the witnesses for their contributions in answering our questions. It has been a wide-ranging discussion. If witnesses wish to send written supplementary evidence to the committee, we will be pleased to receive it.

Subordinate Legislation

Public Procurement (Agreement on Government Procurement) (Amendment) (No 2) Regulations 2021

11:56

The Convener: Agenda item 3 is consideration of a Scottish Government consent notification for a UK statutory instrument. The committee is invited to consider the consent notification for the Public Procurement (Agreement on Government Procurement) (Amendment) (No 2) Regulations 2021. The Scottish Government gave consent during the campaign recess. At the end of the previous session, it was agreed that, during the campaign recess, the Scottish Government would give its consent to UK statutory instruments and then notify the Parliament at the start of session 6. The Parliament's consent is not sought for such SIs, but it still has the opportunity to hold the Scottish Government to account for its decision to consent.

The purpose of the instrument is to make technical changes to domestic UK and Scottish procurement legislation to ensure that it reflects the UK's accession to the World Trade Organization Government procurement agreement in its own right.

Are members content to note the consent notification?

Members *indicated agreement.*

The Convener: We will now move into private session for the remaining agenda items.

11:57

Meeting continued in private until 12:17.

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Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

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