



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy and Fair Work Committee

Wednesday 19 February 2025

Session 6



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ECONOMY AND FAIR WORK COMMITTEE

6th Meeting 2025, Session 6

CONVENER

*Colin Smyth (South Scotland) (Lab)

DEPUTY CONVENER

*Michelle Thomson (Falkirk East) (SNP)

COMMITTEE MEMBERS

- *Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
- *Murdo Fraser (Mid Scotland and Fife) (Con)
- *Jamie Halcro Johnston (Highlands and Islands) (Con)
- *Daniel Johnson (Edinburgh Southern) (Lab)
- *Gordon MacDonald (Edinburgh Pentlands) (SNP)
- *Lorna Slater (Lothian) (Green)
- *Kevin Stewart (Aberdeen Central) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

- Colin Borland (Federation of Small Businesses Scotland)
- Rose Marley (Co-operatives UK)
- Sara Thiam (Prosper)
- Duncan Thorp (Social Enterprise Scotland)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy and Fair Work Committee

Wednesday 19 February 2025

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Colin Smyth): Good morning, everyone, and welcome to the sixth meeting in 2025 of the Economy and Fair Work Committee.

Our first agenda item is a decision on whether to take items 3 and 4, and consideration of future evidence on the new deal for business, in private. Do members agree to do so?

Members indicated agreement.

New Deal for Business

The Convener: The next item of business is the first of three evidence sessions on the Scottish Government's new deal for business. I am pleased to welcome Colin Borland, director of devolved nations, Federation of Small Businesses Scotland, who joins us online; Rose Marley, chief executive, Co-operatives UK; Sara Thiam, chief executive, Prosper; and Duncan Thorp, policy and public affairs manager, Social Enterprise Scotland. Good morning to our panel.

As always, I ask members and witnesses to keep questions and answers as concise as they possibly can.

I will kick off with a very general question. Since the establishment of the new deal for business, how has the relationship between the Scottish Government and the business community evolved? I will go to Sara Thiam first.

Sara Thiam (Prosper): This is a very timely inquiry. Purposeful engagement between Government and business, with greater exchange of ideas and alignment of interests to improve the business environment and the results of the country, are very much at the heart of Prosper's mission as an organisation. There is a recognition that involvement early and often is a positive way to engage with business in order to ensure that there are not unintended consequences of policy making.

Certainly, since the change in Government, there has been a more positive relationship. The new deal for business is of its time. There was a need for it, and the Government is to be commended, to its credit, for acting on the concerns about the state of the relationship with Scottish businesses at the time. That has progressed.

There is more to be done, but perhaps it is time to move on and have a new chapter in Government-business relations. Today, I will restrict my remarks to talking about what we feel did not go so well, what went well and what might be some of the optimum models for a better relationship.

The Convener: I am conscious that the Fraser of Allander Institute did a number of surveys of businesses, in which it asked specifically about that relationship. Its most recent survey, which was carried out in October 2024, concluded, for the second consecutive year, that only 9 per cent of the firms that were surveyed agreed or strongly agreed that the Scottish Government understands the business environment in Scotland, while 62 per cent disagreed. Is that a fair reflection, from the point of view of your members?

Sara Thiam: It is difficult, because the new deal for business was not about dealing with absolutely everything. A great number of regulatory and tax decisions were made outwith the new deal for business. Given that the new deal for business was not involved in those, whether all that can be attributed to the success or otherwise of the new deal is a matter for discussion.

More generally, however, the lack of focus on growth and investment in the economy to generate a sustainable tax base is of concern, broadly, across the business community. That is certainly what we hear from our members in the business community, large and small.

The Convener: I put the same question to Rose Marley.

Rose Marley (Co-operatives UK): I represent co-operatives and inclusive business. In answer to the convener's question, I note that it was previously noted that those inclusive businesses were missing from the new deal for business group. However, we wholly welcomed the inclusive and democratic business model review. We found that to be an excellent process, which was really well chaired and convened. That gets to the crux of the question about the relationships between the Government and business. Obviously, I am speaking on behalf of co-operatives and inclusive business. That is a misunderstood part of business growth, and inclusive growth in particular.

We have a real challenge across the United Kingdom, but in Scotland in particular. We are doing better on inclusive business growth than, for example, England, but we are not doing quite as well as Wales. The ecosystem is not there to support inclusive growth and democratic businesses. Education and understanding are missing not only among citizens in general, but among public bodies and anchor institutes.

We have 7,000 co-operatives in the UK, which bring in £42 billion. In Scotland, we have 595 businesses, which bring in £1.2 billion. However, we need to focus on all the evidence on why those businesses are important to the wellbeing economy, which includes everything from better productivity and better outcomes for workers to better outcomes for customers.

It is not understood that there are co-operatives across all sectors. Everybody knows about the supermarkets, but we are big in housing and energy, and we are in tech and culture. People also misunderstand the legal form that co-operative businesses can take. They can take any legal form, including that of a trading charity or a community benefit company.

Therefore, our plea for improving the relationship specifically for inclusive business and

inclusive growth is about the education, first and foremost, of the public sector. We are finding that there are some real barriers—including in relation to procurement policies, which I know that the committee has looked at previously, right through to investment and lending—that are stopping the enablement of that growth, which would be a very good opportunity for Scotland to see, so we welcome the discussions and thank the committee for its work.

The Convener: You mentioned the inclusive and democratic business model review, but can you say a little bit more about your involvement—or, rather, your lack of involvement—in the new deal and the fact that Co-operatives UK and others were not included in that?

Rose Marley: Yes. I think that Duncan Thorp will have a comment to make about that as well.

We noted our concerns, and we think that that is how the review came about. It was a very engaged process; we had 13 of our co-operative businesses engaged fully in that review, across all different sectors. That has enabled a greater understanding, which has fed through to the report, so we are comfortable that our voices have been heard.

Although we were not on the new deal for business group in the first place, we are happy about the way in which that was responded to, and we are happy that the inclusive and democratic business model review has fed into the findings of the committee.

The Convener: I will bring Duncan Thorp in at this point. You have been cued up to come in, Duncan.

Duncan Thorp (Social Enterprise Scotland): As Rose Marley mentioned, we have not been directly involved in terms of membership of the new deal for business group. We expressed our concerns about that to Government. We are quite happy, because we are involved with Government in different ways. There has been direct social enterprise representation on the group from grass-roots social enterprises. I think that two social enterprises and one employee-owned business are direct members of that group.

As Rose mentioned, the main way in which we have engaged with Government is through the national strategy for economic transformation action 44 process and the IDBM report, "Developing Scotland's Economy: Increasing The Role Of Inclusive And Democratic Business Models", which was produced recently. Our main business-to-Government relationship recently has been through that process, which has been good and positive. It has been very much led by sector organisations, with the IDBM report being co-produced with the Scottish Government.

In general, our relationship with the Government is very good. Scottish Government support over the past few years has been very comprehensive and positive, as has support from other parties. In general, we are quite happy with that relationship but, in future, we would like to be included in the mainstream business forums. That is one of the main points.

The Convener: I put the same question to Colin Borland. How has the relationship between the Government and the business community developed since the new deal for business was established?

Colin Borland (Federation of Small Businesses Scotland): I preface my remarks by apologising for my voice. I will do my best to get through this without coughing and spluttering.

I think that we need to go back to where we were in early 2023 and remember what that context was like. We had just had the deposit return scheme situation and the consultation on banning alcohol marketing and promotion. We were coming off the back of the Covid pandemic, when there was a feeling in the business community that public health officials were pretty much holding sway and getting whatever they wanted from ministers, and that they were largely calling the shots.

Joined-up government has been an aspirational objective for as long as I can remember. However, I recall there being a general feeling that things were particularly disjointed back then, when all sorts of issues were popping up that would affect business, and they were popping up in corridors that were far away from the Government's business and economy departments.

Fair play to the former First Minister, who, back in April 2023, realised that and set up the new deal for business in a bid to pull things back. I think that it is fair to say that the relationship has come back a bit, although some might say that it would have been difficult for it to have gone the other way. If we strip away all the chat about the new deal, some tangible wins have come out of it.

We have a new policy development cycle, which begins by asking, "Is there a problem that we need to solve?" rather than "How do we make this regulation work better?" A new set of policy development tools has been implemented across the Government, including a reformed business and regulatory impact assessment that specifically covers small businesses. I am not sure where we are on the cumulative impact work, but it has been acknowledged that the cumulative impact of regulations needs to be looked at and measured somehow, and there is an intent to address that. There are a few other bits and pieces that I am

sure we will discuss in more detail later in the session.

I reiterate that the approach at that time absolutely was not perfect. Some might argue that it was perhaps a bit too broad, or that the Government had bitten off more than it could chew, such as on some of the non-domestic rates stuff. However, it is possible that expectations had not been set at the outset, so the chat about that sat a bit strangely alongside the chat that we were having about processing and how things were done.

Overall, we have pulled things back from where we were. However, where we were was a pretty difficult place.

The Convener: You will be pleased to know that we will come back to a number of those tangibles in a second. Before we do, Kevin Stewart has a quick supplementary.

Kevin Stewart (Aberdeen Central) (SNP): Colin Borland has painted a picture of where we were and where we are now on the new deal for business. I will fling something in here, too. It is extremely important that there is engagement with Government and that business and Government are able to communicate with each other. However, certain other aspects have slipped. That might be a Covid thing, or it might not be. I would like to hear your opinion on that.

As well as the decision makers in Government, individual parliamentarians are involved. I am afraid that I am going to pick on you, Sara, as you are Prosper's representative. From my perspective, under its previous name, the Scottish Council for Development and Industry, your organisation was immense at connecting elected folks with businesses in the north-east of Scotland. Ian Armstrong, who left around the time of the Covid pandemic, was a brilliant character who did his level best to connect everyone. However, that approach has gone in many places.

I am picking on you, Sara, but I put the same question to all of you. Are there missed opportunities for engagement with other politicians that you need to put right? Having conversations with Government is fine, but we other members are decision makers who will legislate on aspects of life that will affect you.

Sara Thiam: That is a positive and timely question. I will make a couple of observations.

First, it is well worth members speaking to Prosper's regional manager for the north-east, John Urquhart, who is doing a great deal of good work. This week, we have done a lot of work around industrial strategy and in engaging with the business community and beyond in the area. Tomorrow evening in Aberdeen, we will host 500

people at a dinner with the National Wealth Fund's chief executive. There is a lot going on.

09:45

Covid was a very challenging time for representative organisations—not that we are one; we are a slightly different beast in that we bring the private, public and third sectors together with the Governments at Westminster and Holyrood. We add unique value by facilitating and focusing cross-sectoral engagement and collaboration on opportunities, challenges and what is coming up ahead. Our work is complementary and adds value to the work of business representative organisations, such as the Federation of Small Businesses.

As I said, Covid was a very challenging time for membership organisations. Our organisation is a not-for-profit organisation. Businesses were really up against it during Covid, and it was often the case that the first thing that they cut was discretionary membership of organisations such as ours. There was perhaps a trend for organisations to retreat into their silos and to work much more closely with trade bodies and representative or sectoral organisations than with broad cross-sector organisations. Out of sheer necessity, the view was, “Okay—we need to just stand up for our sector here.” Some collaboration landscape aspects were perhaps lost at that time. Your observation is interesting.

Kevin Stewart: Does anyone else want to come in on that point?

Colin Borland: Your timing is spot on, because, incidentally, straight after this committee session, I am going to a meeting to present some findings to our senior Scottish members. Independent figures show that almost every member of the Scottish Parliament has some sort of contact and familiarity with the FSB. That is because we have a network of people right across the country who talk to them absolutely all the time. The number of events and opportunities that we provide to connect people so that they can have those conversations, particularly after Covid, has sustained. In fact, attendee numbers, registrations and turnouts are all up across the board.

The other side of that comes back to something that was good about the new deal. It can sometimes be difficult to engage with elected representatives on the practical, day-to-day considerations that keep small business owners awake at night. A lot of the economic debate in the Parliament is quite high level and long term, whereas our members talk to us about quite short-term issues, such as how they are going to make it to the end of the week, month or quarter.

The new deal let us have those conversations about processes, which people—certainly at ministerial or senior official level—are usually not that interested in. The new deal let us explore some of those topics with people and fix issues, because although it seems quite process driven, the outcomes and effects of it are very practical, and we want to preserve that.

Kevin Stewart: I will pick on you now, Colin, because, in the past, the FSB has been very good at directing elected members to visits to businesses. You said that some of the discussions that small businesses have are about the bread-and-butter stuff that they face day to day. When I talk to them at the moment, employer national insurance is top of the agenda, but the discussions often become much more strategic. Sometimes, we forget that folks have views on almost everything.

Is the FSB currently engaged enough when it comes to making those on-the-ground connections? I am not talking about things such as events, because sometimes the connection at those is slight, whereas if I am taken on a wee tour around Rosemount in my constituency by one of your representatives, as I have been in the past, rather than just getting five minutes at an event with somebody, I will get a good discussion about everything. Is there enough of that?

At the end of the day, the connection with the Government is fine—it is good, and I am glad to hear that it has improved—but I am still not convinced that we have got back to connecting with all elected members. I will go further than that and say that that is particularly the case for those who were elected during the Covid period. Those of us who had been around previously maintained our connections, and we grew them again after Covid. However, I am not sure that those connections are there yet for those who were elected during that time—whether that was to the Scottish Parliament, Westminster or to councils—which means that we canna feed into or scrutinise the Government.

Colin Borland: Obviously, there is a standing invitation—Mike Duncan would be more than happy to take you around to visit as many people as possible.

You are right in what you say about the need for quality engagements, which do not involve saying, “I want to come and talk to you about this issue”; rather, they involve saying, “Tell me how business is going and tell me how things are.” In that way, you get into all sorts of fascinating discussions, which might link in to who knows what. The conversation might well get on to a big strategic policy issue and help us to draw out some of those themes. For example, at the moment, we are talking a lot about the fact that just about

everything comes down to costs or cash flow. Almost every issue that is raised with us probably slots into one of those two big worries, so such engagement helps to frame the conversations.

Probably like everyone on the panel, we carry out independent reputational audits, so that we know what people are thinking, and we can split that information up between people in terms of when they were elected. There is not a massive split between new and established elected members and there is not a massive geographical split, but you are absolutely right that you can always do more to foster those quality conversations, and there is an open invitation to anyone who wants to come and talk to us.

The Convener: I think that Rose Marley would like to comment, too.

Kevin Stewart: I am sorry, Rose—I did not see that you wanted to come in.

Rose Marley: It is no problem at all.

That is an excellent point, and it is one of the reasons why we backed the duty on Scottish Government and agencies to bring more inclusive businesses into the discussion. The truth is that the process is not vertical—it comes down to the ministers. Some ministers are proactive and passionate about some of these issues and they come to organisations and sector organisations, and we can respond to them, but there is no effective mechanism to make that happen. It very much comes down to the individuals, so we are keen to see the introduction of that duty.

The Convener: Gordon MacDonald has a supplementary.

Gordon MacDonald (Edinburgh Pentlands) (SNP): I was instrumental in setting up a quarterly meeting with the Edinburgh Chamber of Commerce to better understand the challenges that businesses face. What is the relationship between the FSB and the chambers of commerce? Would you support a roll-out across the country of quarterly meetings of chambers of commerce with back-bench MSPs, so that they fully understand the challenges of business?

Colin Borland: If people want to come to talk to us—however they want to do it—we are absolutely supportive of that. That goes for members of the Scottish Parliament, the UK Parliament, local government and so on. Wherever there is influence to be had, we want to be there to do that and, as you say, to ensure that people understand the realities of doing business and try to take it off the spreadsheet, if you like.

The strategies and everything are absolutely wonderful—I would not for a minute suggest that we do not need a bit of long-term thinking like that—but, if you are going to launch the next high-

growth tech unicorn, it needs a solid economic base to launch from. Almost all the businesses that make up the economic base are small businesses or microbusinesses. They are already employing nearly a million people and turning over £93 billion annually. You need to think about that business base and about how you broaden it and strengthen it, and you need to listen to those businesses rather than be seduced, as some might say, by the big shiny thing or put all your eggs in a basket that is labelled “The next big thing”.

Gordon MacDonald: Yes, absolutely.

Murdo Fraser (Mid Scotland and Fife) (Con): Good morning. I will ask this question of Colin Borland first, because he is a kind of veteran—if he does not mind my saying that—of the business space over a number of years.

In the past decade and more, we have seen countless relaunches, new initiatives, forums, working groups and resets come and go. Some have been set up with great fanfare but have then petered out. Is the new deal for business different from what has gone before? If so, how?

Colin Borland: I cannot get away with the excuse of saying that it is new. The longer I spend in this space, the more I see things coming round and round. To follow on from what I said to Mr MacDonald, I do not want to dismiss things such as industrial strategies that talk about key sectors or foreign direct investment; my question would simply be why that would work this time round, when we have been trying that for 40 years and none of us would say that the economy is in the shape that we would like to see.

I also wonder whether the new deal might have been a bit of a reaction against the national strategy for economic transformation. I know that they are supposed to fit together, but the strategy had quite a lot of emphasis on things such as an entrepreneurial culture and I got the feeling that the new deal was trying to be a bit more practical in focusing on the sorts of things that our members bring to us and in looking at some of the root causes. As I said in a previous answer, there was an opportunity to sit down and talk about some of the processes that have led to some of the issues that have had practical effects in the real world. For example, I am quite proud of the fact that we can point to our heavy involvement in looking at the business regulatory impact assessment. As you know, before that, the question was just, “Right, how will this affect business?”

I will cite the example of the visitor levy BRIA, which was done under the old system. Only about two small businesses were spoken to as part of the BRIA, although the sector is dominated by small firms that have completely different

experiences, perspectives and resources from those of the massive multinational hotel groups. The impact assessment now specifically says that there is a need to think about how things will work in a very small business and what the practical effect will be. It will take a while for that culture to filter through, but we can point to that real change and say that we did that as part of that process. I do not think that that would have happened without the new deal.

We can talk about the revised policy cycle as well. The implementation will take a while and it is not perfect—there are examples of where it has not worked. However, if we are looking for something that we have got out of the levy that we can point to, that is different.

Murdo Fraser: That is a helpful answer. I am going to ask a follow-up question and then will bring in other witnesses who want to comment.

I take it from what you are saying that we should judge the new deal on the basis of outcomes rather than inputs, so what is the new deal for business delivering that is actually different from what went before? We have just gone through a budget cycle and the committee has done budget scrutiny—for example, by looking at issues such as non-domestic rates, because support for retail, hospitality and leisure is stronger south of the border than it is in Scotland. We have looked at funding for the enterprise agencies and VisitScotland, and we have looked at employability schemes, which have seen a substantial real-terms cut in their funding in the past two years.

Can you point to specific outcomes that you think have been delivered because of the new deal for business and that would not otherwise have been delivered?

Colin Borland: I do not know, because I do not know what discussions are happening in Government. The fact that we are broadly supportive of the process does not mean that we do not disagree with some decisions. I think that some budget decisions, particularly around non-domestic rates for retail and leisure, were wrong and I can explain why they were wrong. If you look at the confidence figures that came out this week, based on data that was gathered in December, you will see that, in the run-up to Christmas, confidence was on the floor and retail was the second-least confident sector, which demonstrates that those decisions were wrong.

Government takes lots of decisions that we will robustly challenge, but we have tried to focus on how to get the decision-making process right. If I go in and lose an argument, that is fine, because that is democracy and that is what elected Governments are there for, but it is important to ensure that processes are in place and that things

do not pop up or get set in train that then have to be unpicked before it is too late, with all the negative consequences that that can have.

Murdo Fraser: Okay, but the point that I am trying to get to and what the committee is trying to find out is whether the new deal for business has made a difference.

10:00

Colin Borland: It is early days, but I think that we will begin to see a difference in how policies are being developed and how new things are coming through. There are still issues with how some of the new deal has operated in practice. The consultation on non-surgical cosmetic procedures, which has just closed, is an example of something that should have been done under the new system but was not—it was missed. We will sort that out and make sure that we are engaged in it. However, I think that it is a bit early to point to any cases where we can say, “We made this argument, therefore this decision came out of the other end.” I do not think that the new deal was set up to do that or to say that business will always get its way. There will always be disagreements. It is more about the process that lies behind it.

Murdo Fraser: Thank you. I will bring in the other panel members.

Rose Marley: I would originally have said that the new deal was not making a difference in respect of bringing in the most critical businesses for the wellbeing economy. However, I really commend the creation of a new economic democracy group. I wholly believe that the recommendations that are feeding through now on things like food security come from speaking to the right people.

It is too early to say, but the indications are that the Government is listening. We have made points and we have been listened to. On things such as building community wealth, fairer pay and inclusive employment, it is really encouraging that businesses that already represent those attributes are now in the conversation. I believe that that will make a difference, but it is a bit too early to say that now.

Duncan Thorp: I agree with Rose Marley on the economic democracy group, which is the new group that has just been up as a result of the IDBM report—I am sorry; there are lots of acronyms. There is a probably a bigger picture around processes and structures more than anything else. It is not just about the new deal for business group; it is about any forum like that and how it is set up, who is invited to speak, who is invited to be on the membership of it, and what criteria are used for that selection process—I do

not know whether any criteria are being used for the group. You look at the list of members and think, “I understand why some organisations are there, but I’m not quite sure why some of them are there.” There is an issue in looking at the bigger structures around how those organisations and people are selected. It might be the case that we are not the best people to speak at certain groups, so we might want to promote our members—grass-roots businesses and grass-roots social enterprises—to speak instead.

There is a bigger-picture issue around not just the new deal for business group, but other forums and how they are selected and structured.

Sara Thiam: Colin Borland has already covered some of the positive progress that is being made. However, there have been some tests of the new deal, such as the “no surprises” rule around the budget. I am thinking in particular about the feedback from the retail industry when the grocer surtax appeared in the previous budget without notice. That suggested that, although there had been good progress in some areas and the right templates were put in place—things were improving and policy was not being developed in a vacuum—people on the ground were not able to shape that.

Murdo Fraser makes a good point. I have thought about the creation of new structures, which is a sort of perennial labour, if you like. It makes me reflect on the origins of my own organisation, which were in the great depression of the 1930s, when industrialists realised that it was incredibly important to come together with the Government and wider society to do something about what was happening in relation to the absolute crash of the economy. It turns out that, when society falls apart and there are soup kitchens, it takes all of us to build a successful economy. My organisation lives on 90 years later and, I would argue, still plays a valuable role as a critical friend to Government.

As a rule, focusing on strengthening existing groups and structures is preferable to creating new ones. Also, if you are going to develop new structures and ways of engaging, there are certain factors critical to success that need to be included from the outset. There must be a shared sense of engagement in a true joint venture, and organisations must be seen as equal partners.

As Colin Borland said, the co-design of new policies requires compromise from both sides, but one got the sense that this was a Government initiative with Government agendas. Industry was a participant and was invited to the conversation, but some of the meetings were called at short notice and there was limited ability to engage. There was quite a lot of information from the Government about developments and relatively

limited opportunity for industry to bring some of the chalkface issues to the table.

Murdo Fraser: You sound quite dismissive.

Sara Thiam: There was a need to do something. A good model to work towards, with the types of things that we would like to see in it, would involve trying to work with the organisations that you already have on hand. Do not overlook the positive role that is played by those business representative organisations and the trade bodies. Such organisations have an invaluable role to play, and they often act as an early warning system. The Government has its own programmes and policies, but those networks are invaluable.

Kevin Stewart made a valid point about the lack of engagement between organisations like ours and MSPs. We need to do a lot more. I was incredibly disappointed when I saw the 9 per cent figure from the Fraser of Allander Institute. We were very involved in advising on the setting up of the Scottish Parliament, but, in the 25 years since, there has been little progress and there is now less awareness of the valuable role played by organisations like ours, business representative organisations and trade bodies.

Murdo Fraser: Is the new deal for business not a means of connecting the Government to the very organisations that you are talking about? Do you think that it is not fulfilling that role?

Sara Thiam: It is. It is interesting that the other witnesses are calling for that group to be widened. I think that some of the regular engagement between cross-sectoral business representative organisations and organisations like ours dropped away when the new deal came on board, because it was seen as the new way of engaging. The group of six wrote to the First Minister in March last year about our concerns, as there was a sense that the engagement had been diluted because it had been broadened out to so many organisations, including some Government-funded ones rather than independent business representative ones.

Those are subjective and anecdotal observations. You have the data from the Fraser of Allander Institute.

Duncan Thorp: On the point about engagement with grass-roots organisations and businesses, that seems to be the missing link. Kevin Stewart asked a good question about connecting MSPs directly with businesses and social enterprises. That is crucial and we need to do far more of it. It is our responsibility as representative organisations, but our door is always open to make that connection. I think it is the missing link here.

Forums and steering groups are important, but at the same time we need to ensure that there is a direct link between the work of MSPs and what is happening in our local communities with businesses and social enterprises.

The Convener: The deputy convener has a quick supplementary question.

Michelle Thomson (Falkirk East) (SNP): I sense that, with some of these open-ended questions, we are still framing the scope of our inquiry. I have a very simple question. We have talked quite a lot about process and procedures and so on, but my question is more fundamental. With the advent of the new deal for business, are you able to say that Government gets business—yes or no?

Rose Marley: Yes, for our sector—or it is trying to.

Duncan Thorp: From a social enterprise perspective, I would say yes.

Michelle Thomson: What about Sara Thiam and Colin Borland?

Sara Thiam: The better grasp and greater focus on growth in recent months, perhaps with the change of Government, has really helped progress. In recent months, we have seen improvements in regulation and some pragmatism on implementation, as well as a legislative programme that has not brought the same costly surprises as we have previously seen. The recovery period has been slow, however, and business is still reeling—there has been one thing after another. We have gone straight into the post-Covid era, with its challenging economic circumstances, so the recovery process will take time. The on-going relationship and engagement with business is important, as is having real clarity about terms of reference, joint co-chairing and agreed agendas. That is the way to proceed.

Michelle Thomson: I am reading that in my head as the Government starting to get business—you can tell me if I am wrong.

Colin, can you come on this as well?

Colin Borland: I think that the Government is probably getting there, but there is still a significant gap between the Government chat about the economy and the sort of conversations that people on the ground and on the front line are having. I am not sure that there is an appreciation of just how tight things are and just how fragile a lot of businesses currently are, as well as of just how immediate the challenges are. I am not sure that that is landing, and that is not specific to the Scottish Government—I would say that it applies to local government and to Westminster, too.

Daniel Johnson (Edinburgh Southern) (Lab): I have some questions on a different topic, but I find the current thread of questioning interesting. The deputy convener summed it up quite well—it sounds as if the Government is starting to get it but is not there yet. Reflecting on what I have heard over the past 10 minutes or so, I think that you have said that engagement has got better and that some decisions that might be actively damaging to business are being avoided. However, that is not the same thing as having policies in place that promote a healthier economy and promote growth and investment—that is to say, policies that are actually for businesses. There is a difference there. We should surely be seeking not just to engage and have a good dialogue with business, but to put in place policies that are directly focused on improving the business context and business investment.

Is that a fair reflection of the conversation? Perhaps you can start, Sara, because your comments in this space have been most germane.

Sara Thiam: It is difficult to separate out the various elements. On the one hand, there is the new deal for business group, and on the other hand we have begun to be able to have better conversations about regulatory impact and progress. Part of the challenge was that there were broader issues around tax and budgets and so on that did not necessarily form part of the conversation at the new deal for business group. Perhaps business representative organisations felt that they had limited capacity to influence or that they were not being invited early on into the thinking about those things.

However, that is not unique to the Scottish Government. There have been real challenges with the UK budget, particularly with the change to national insurance, which has hit Scotland disproportionately hard, not just because of the structure of our economy, which is dominated by small businesses, but because of our voluntary sector, the care sector and so on. Those issues have been challenging but they are not the kind of issues that will be brought to an industrial strategy council or a new deal for business meeting.

10:15

Daniel Johnson: At the beginning, you questioned whether the policies are in place to focus on investment in Scotland. I would be interested if you could follow that up.

Sara Thiam: It is welcome that there is a much greater focus on investment and removing the many barriers to that, from planning and ensuring that consents are in place to infrastructure. There are so many broader structural issues in the economy that impact on business.

I am sorry, but will you remind me of the question? I am rambling.

Daniel Johnson: Not to worry. I probably need to move on.

A key focus of the new deal for business was the regulatory review group. I wonder whether the witnesses feel that progress has been made there. I ask Colin Borland to comment first, as Sara Thiam answered the previous question.

Colin Borland: Before I talk about the RRG, I will say a bit in response to the previous question. You are right. I could not agree more that we need a suite of pro-business, pro-growth policies and a series of decisions about taking the direction that is labelled “growth” when we come to the fork in the road. We need to remember when and why the new deal for business was set up. It was set up to stop crazy stuff from getting near the statute books and freaking out businesses. I remember consultations that suggested that branded drip trays or bar towels caused problem drinking and things like that. Stopping that sort of stuff and that feeling of malaise or chaos is certainly partly why we got involved.

The resurrection of the RRG happened as a result of the new deal process. There is still a question about how it fits into the new policy cycle. I am telling you stuff that you already know, but it is a four-stage cycle, including stage zero, that tries to establish whether there is an actual problem. What is the evidence that there is a problem? What are the options for dealing with it before we get anywhere near regulation? It has not been quite clear how the RRG plugs into that. We have been asked about that a couple of times, but it has been difficult to get to the bottom of the RRG’s role, the powers that it has and how we can proactively input to it.

As I said in my exchange with Mr Fraser, the consultation on the regulation of non-surgical cosmetic procedures has just closed. We knew that it was in the offing, but we did not know that it was as far down the road as it was. The planned consultation went to the RRG in October 2024, which was two months before the consultation document was published in the run-up to Christmas, if I remember correctly. We found out about it only because we read the RRG minutes that were published in January. The consultation closed at the end of last week.

There does not seem to be an established link between the RRG and the new deal for business group in respect of a plan to arrange regular information sharing and outreach. I do not know whether there is something to be done to fold in the work of the RRG and bring it in at stage zero of the policy cycle.

Daniel Johnson: To lead into my follow-up question, it strikes me that, while the groups that we are discussing might look at things that are explicitly about business, they—and we—are not asking whether all policy is aligned with our economic policies. Again, we might look at whether the proposals on alcohol advertising were in line with our growth aspirations for the food and drink sector. Another example might be the Berwick Bank decision. We have a very ambitious target on renewables, but we are now approaching the two-year mark for the consenting decisions—which are meant to take a year—for what will be one of the most substantial contributions to meeting that target.

Is there too much of a focus in the regulatory review group on new regulations, rather than on asking whether all our regulation and policy making is aligned with our industrial objectives? Colin, perhaps you can answer first, and I will then open it up to the whole panel.

Colin Borland: I guess that you would have to ask the RRG. One of the issues that we have is about getting a handle on its work and on what its scope and role is, because we are not members of it—we are not sitting inside it.

I will highlight something interesting. I get a little bit of insider information, and I have been told that there is now a Cabinet sub-committee with a few ministers—almost like a star chamber—that is looking at some of those things and considering anything that comes up, in particular those initiatives that are far from the business and economy corridors. That means that the issues are almost going through a filter. If that is the case—if that is what the sub-committee has been set up to do—that is great, because we have been arguing for about 10 years for that sort of core group to be set up to consider those issues. That means that, before anything sees the light of day, it is subject to a rigorous test with regard to how it meets the growth agenda. There is currently nothing else like that.

Sara Thiam: I would certainly endorse what has been said. I alluded earlier to the lack of focus on growth and investment in the economy to generate a sustainable tax base. Daniel Johnson is absolutely right—it is about looking at not just regulation, but all the levers that Government has at its disposal. If growth is a priority, we need to look at how we ensure that those levers are all aligned to ensure that growth happens. It is about investment, planning and consenting, infrastructure and building new homes—there are so many critical economic enablers that we need to consider in order to ensure that the right decisions are being made to grow the wealth.

Duncan Thorp: There is a difference between, on the one hand, listening, consulting and creating

steering groups and forums and, on the other, actual policy implementation and action. There is sometimes a bit of a disconnect between those things. A good example of that is the IDBM production report to which I and Rose Marley have referred. That was very much a sector-led process, which means that the report is very different. It is more ambitious and coherent because it was produced at the sector level—it was co-produced with the Scottish Government and led by an independent chair. That process is a good example of where that approach can work, taking into account the disconnect between rhetoric, listening and consultation and policy reality, which is a general issue with regard to policy implementation.

Rose Marley: Daniel Johnson makes an excellent point. I am all for bringing things in from the grass roots up, and we will always talk about that. If decisions are made that do not connect at a holistic level, we hit barriers. With the regulatory review group, we are—as the deputy convener eloquently put it, and as Duncan Thorpe says—starting to see how we might be able to influence things such as regulation. For us, capital raising is something that needs to be looked at. My concern, however, is the order in which we are doing things, and whether decisions may have already been made at a wider level. Governments naturally operate in silos. If the Government's aim is to grow business and to create the foundations for business to grow in Scotland, that needs to be done across all those considerations. It is an excellent point. We can do as much as possible from the bottom up, but there is a piece of work to be done to join all of that together with a clear focus.

Daniel Johnson: In the interest of completeness, I note that the issue of non-domestic rates reform was highlighted to us before the meeting. Do you feel that there is an appetite to look at that? It is a bit of a perennial chestnut from the business community. I need to declare an interest, because I bear the scars of having gone through the appeals processes for revaluation. To me, it looked as though there was a very wide discrepancy between what I was asked to pay by the assessor and the rent that I was actually having to pay for my units. I think that the system is a bit dysfunctional.

Is there an appetite to look at reform of non-domestic rates? Is there active engagement about how we might review the system? I am looking at Lorna Slater, who is sitting to my left, and thinking about things such as a land value tax as an alternative to non-domestic rates. Is there an appetite to look at the fundamental change that the business sector wants to see?

Colin Borland: No, not when we are only a year and a half away from an election. I would be very surprised if anyone wanted to take that on.

The operation of the sub-group was interesting. I always thought that it sat a bit oddly in the new deal set-up, because most of the other sub-groups had a focus on process and how to do things better. I was not on the sub-group—a colleague of mine was on it—but it seemed that most of the discussion was about substantive policy. I am not sure whether that was deliberate or whether people were not having their expectations managed. The committee would need to talk to the people who chaired the sub-group and were more closely involved, but my impression was that people were talking at cross-purposes and that they thought that they were going to get something that they did not get. As a result, both sides got frustrated with each other. I do not think that the people who were involved in it felt that it was a particularly positive experience.

Daniel Johnson: Does anyone else want to grasp the nettle of non-domestic rates?

Sara Thiam: I think that Colin Borland has said it all.

Duncan Thorp: A lot of social enterprises as well as registered charities are exempt from business rates, but there is a point to be made about clarification, because it is not always clear in every local authority area who is exempt and who is not. The social enterprise sector is complex, so clarification might be needed on that issue.

Gordon MacDonald: Colin Borland touched on business confidence and said that it is absolutely on the floor. I read that, in the fourth quarter of 2024, business confidence was at its lowest level since the fourth quarter of 2020. Why is that?

Colin Borland: It is due to a combination of factors. We can look at everything that is swirling around at the moment. Since the summer, the mood music has been very much in a minor key, if not funereal, and that seeps through into confidence levels. We have seen costs going up, revenues going down and margins being squeezed, and profits have been non-existent. There have been other issues, too. For example, not a word of the Employment Rights Bill at Westminster is on the statute book yet but, because of the way that it has been presented and the mood music around it, it has already had a chilling effect on hiring intentions.

At the same time, consumers are—understandably—very cautious. Every pound is a prisoner, and people are thinking very hard about where they spend their money. Certain sectors are absolutely on the front line in that regard. You will not be surprised to hear that the sector with the least confidence at the moment is hospitality—

accommodation, food services and other hospitality businesses—because they are on the front line of all the cost increases but they are also incredibly vulnerable to what is happening in relation to consumer confidence.

As I said earlier, almost everything that is affecting small businesses comes down to costs and cash flow. We need to get money moving around those businesses, so the more that we can do to reduce the former and speed up the latter, the better.

Gordon MacDonald: I note that, in the FSB's survey, 74 per cent of your members said that they were concerned about the rising costs of utilities, fuel—diesel and petrol—and employer national insurance contributions, and 59 per cent were concerned about the lack of growth. According to Goldman Sachs, growth in the first quarter of 2025 will be less than 0.5 per cent and it will fall in the rest of the year to close to 0.25 per cent. Scotland has two Governments: the Scottish Government and the UK Government. How far can those issues be addressed by each of them?

10:30

Colin Borland: Some Scottish Government initiatives that we have been examining recently are interesting in that context. An example is yesterday's ministerial statement on the proposed bill on community wealth building. A hard-pressed small business owner might take one look at that and think that it all sounds like pie in the sky or a bit airy-fairy. However, it addresses the practical issue of how we can get better economic value for money that we are spending anyway. How can we ensure that the local business base gets a fair crack of the whip on, for example, public procurement? Such approaches are sensible, because they get money moving around the local economy and multiplying its effect as it goes.

We must also ensure that we regulate sensibly by ensuring that we embed and implement the new practices that have been agreed under the new deal through policy development, so that we do not get stuff coming up that gives us a nasty surprise and dents business confidence at a time when, as we have just discussed, it is already incredibly shaky.

We must also tax sensibly. As I said—this is possibly slightly tongue in cheek—I do not think that anyone is about to embark on a major reform of rates this close to an election. However, steps could definitely be taken to make them fairer, particularly for sectors that are on the front line. We got a win in the budget process for hospitality businesses, but the leisure and retail sectors are still struggling. Doing something similar for other

businesses that are on the front line would provide them with a boost.

Gordon MacDonald: How important is the small business bonus scheme to small businesses? I noticed that 48 per cent of retail, leisure and hospitality businesses receive 100 per cent rates relief.

Colin Borland: It has been an absolute lifeline for tens of thousands of businesses across the country, and disproportionately so in the hardest-pressed economic areas, where rateable values are typically lower.

Gordon MacDonald: Okay. Thanks, Colin. Sara, I noticed that you were nodding away there.

Sara Thiam: Colin Borland has articulated that very well indeed. As he said, low growth is definitely a concern.

The only factor that I would add is low business confidence. We live in an uncertain world in which there has been a bit of an erosion of trust, particularly on the part of smaller businesses. In the not too dim and distant past, Scotland has seen a great deal of regulation appearing from nowhere, which has created many challenges for business. There is certainly work to be done to rebuild that trust. Colin put his finger on it: this is not about business getting everything that it wants and saying to the Government, "Get out of the way—business knows best." That is not how the world works; it genuinely needs us all to work together.

It has to be said, too, that all the regulation that comes out of Government is well intentioned—it is coming from a good place. Often, businesses share the impetus to drive carbon out of their operations and do the right thing. All the work that we did on the business purpose commission for Scotland demonstrated that businesses that have an impact on the communities in which they operate and on the environment are more profitable and resilient. They will still be here in five, 10, 50 or 100 years. They are often family businesses or rooted in places in Scotland that need jobs—where a few jobs will make a big difference.

I would not wish to comment on whether one Government or the other has done more—they both have different levers, and it is about how those levers are best used. Both Governments share economic growth as an outcome that they are working towards. The question is, are all the right things in place to ensure that we get there?

As part of our current work, we are gathering evidence—as we do every five years, as the committee will know, ahead of the Scottish Parliament elections—for our economic blueprint, which will set out some of the actions for the

Scottish Government, the UK Government and local government, but also for business and industry. There is plenty for business and industry to be doing. The business purpose commission for Scotland is one of the really positive examples of fruitful Government-business engagement. We provided the secretariat, and the commission was Government funded. However, the industry leadership of the commission, along with senior members from trade unions, academia, the third sector and wider civil society, gave it the space and weight to engage with businesses and stakeholders and make credible recommendations to businesses and to the UK and Scottish Governments. We need to see much more of that.

As an additional point, all the work on the business purpose commission was done ahead of the establishment of the new deal for business group, and it is clear that the greater stability of Government portfolios and personnel really helps to underpin the pledges. The business purpose commission was industry's and business's answer to what we could and should be doing to benefit our communities and to ensure that we are doing no harm and helping the environment, and growing our businesses by solving the problems of people and planet. However, when the new Government came in, all that was forgotten and we moved on to start talking about the wellbeing economy and trying to persuade businesses of the benefit of the wellbeing and fair work agenda. In fact, the business community itself has already identified business purpose as the way to transform businesses and do the right thing while also ensuring that businesses are more successful in the process.

Gordon MacDonald: Duncan, did you want to come in?

Duncan Thorp: Yes. Regulation has to be proportionate. It affects all our organisations, including in the third sector, so it has to be proportionate, but it can be empowering, and it is important. The fair work agenda and the fair work criteria are a good example of that. We are very supportive of the fair work agenda—we do not necessarily see that as regulation, but one could see it as placing burdens on businesses. It is an important example.

Social Enterprise Scotland does not measure business confidence directly, but we recently conducted a survey on funding and social investment, and the findings were quite stark. We will publish the results soon, which we can share with the committee. Those results were worrying—the picture for the social enterprise sector is the same as it is for the small business community. We are also awaiting the imminent release of the social enterprise census, which will give us a bigger picture of the size of the sector and how it

has suffered, or not, since the Covid period. We are waiting on those statistics.

Gordon MacDonald: Rose, do you want to come in again?

Rose Marley: Yes. In answer to your question about business confidence, we must not underestimate the impact of global politics and economics. Everybody in business is looking for consistency to be able to plan, and business planning cycles are longer than political cycles. Our plea, whether in respect of regulatory frameworks or new business groups, is for consistent messaging and understanding to enable businesses to plan.

That goes back to the point about when things come out of left field and we do not know about something before it appears in the press. That is when confidence wanes—when businesses feel that they do not have a good, strong connection with Government. It is about being a bit more pre-warned and pre-armed. The Scottish Government should have the confidence, regardless of what is going on, to say, “We’re backing business and we’re looking for business to flourish and grow, and to help and enable you, as businesses, in your growth.” That needs to be played as a consistent message through all the forums. As has been said, it feels as though we are in a state of permacrisis, and I would say that it is the Government’s role to give business something solid to stand next to.

Michelle Thomson: Gordon MacDonald alluded to the two-Government situation. I have a quick question. I suspect that Colin Borland and Sara Thiam will have a clear view about this, but to what extent do the people with whom you interact, such as your members—I know that it is different for you, Sara—understand what is going on at a macroeconomic perspective and the levers that reside therein and what is going on at a microeconomic perspective, as well as what is devolved and reserved, the resultant potential impact on policy for business and the potential limitations? I am just looking for a general sense.

Sara Thiam: Are you asking about officials’ knowledge and understanding of what is devolved?

Michelle Thomson: No. I mean people with whom you interact. Perhaps it is more a question for Colin Borland. Why do your members need to care, except that it is a salient point when you think about financing for certain types of businesses? We know that, across the UK, the financial sector is still terribly geared to traditional-type businesses. There is a massive gap there, which, legally the Scottish Government cannot address. It can only influence it. I am trying to get a sense of how much your members understand

that or whether they care, because it is a salient point.

Sara Thiam: I am sorry, but I am trying to understand the question. You mean the gap between—

Michelle Thomson: What I am saying is—

Sara Thiam: Do businesses fully grasp what is reserved and what is devolved?

Michelle Thomson: And what is macroeconomic policy and what is microeconomic policy. The Scottish Government has no control over interest rates or employer national insurance contributions. Consumer prices index inflation has gone up today. The Scottish Government has no control over that. We do not even have a separate Scottish measure for it. That undoubtedly flows into business confidence. I am trying to get a sense of the extent to which that is understood.

Sara Thiam: It would be good to get Colin Borland's take on the matter but, inevitably, the larger organisations have resource to devote to people who are thinking about public affairs, the relationship with Government and how it impacts on their industry, so the big corporates will be fine. The real challenge is for hard-pressed small business leaders, who are just trying to keep the lights on, to be frank. Colin can add colour to that.

Colin Borland: I do not think that small businesses make any distinction between whether a policy is the responsibility of local government, Holyrood or Westminster. It is just "them". Regulation is regulation. Costs are costs. You just need to get on and comply or obey.

We have some interesting work going on in the field, through the big small business survey. One of the questions that we ask is: where do you perceive that the majority of regulations that affect your business come from? Is it the council, Holyrood or Westminster? We will be happy to share those findings with you later in the year. That will give us a handle on where businesses are coming from. Anecdotally, to judge from conversations that we have, they do not make a distinction.

Rose Marley: I agree with that. It is misunderstood across the UK which responsibilities are local government's. Now we have city regions as well. Which responsibilities belong to those, which belong to Westminster and which to the Scottish Parliament? It is absolutely confused.

Sara Thiam: That makes it all the more important that there is not a blame game. Rather than saying that a responsibility is not ours and we cannot do anything about it, we should say that we have only certain levers and will try to use them as best we can.

Duncan Thorp: It depends very much on the issue. If you are talking about national insurance or interest rates, our members are clear where those responsibilities lie. If it is the big picture, that is fine but, on the nitty-gritty, it depends. Our job as intermediary organisations is to translate those things. Like any other businesses, social enterprises are busy doing their day jobs, but they are aware of the big issues. Social enterprise is a very politically engaged sector, which helps.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Good morning. I want to raise a couple of points that were discussed at the most recent meeting of the new deal for business group—I have in front of me the minutes of the meeting in January. The question is probably more for Sara Thiam and Colin Borland, who are direct members of the group, but I would appreciate views from the other witnesses.

10:45

In the budget, the Scottish Government announced funding of £62 million to support the regeneration of local and small economies by enterprise agencies. Someone at the meeting said that

"most small business members don't see how this"

funding

"assists them"

at all, either because

"they don't qualify for rates relief"—

which is a surprise—or because they do not

"fit the client profile of the Enterprise Agencies".

I invite you to comment on the thinking around that. We are following the public pound here: the Government has announced funding with the purpose of helping small businesses, but members of the new deal for business group are saying that they somehow cannot access that funding. I want to try to understand why that should be and what we can do about it.

Perhaps Sara or Colin could go first.

Sara Thiam: I have to confess that I was not at the group's last meeting. The only thing that I can think of—this does not relate specifically to the example that you mentioned, but it may explain it—is that we sometimes get feedback from businesses that the enterprise agencies will focus on high-growth sectors. The model is, "We've chosen the following high-growth sectors, and these are the ones that we will account manage and work with more closely." Sometimes, the wider business community is not necessarily prioritised in that process.

Colin Borland will be able to say more on that.

Colin Borland: That is very confident of you. [Laughter.]

Sara Thiam: You have all the answers.

Colin Borland: The last meeting of the group was moved at short notice, which meant that quite a few of us could not make it; I do not think that I was there either.

The short answer to Willie Coffey's question is no—I am sorry, but I do not know what that comment was about or what that person was referring to. However, I would back up what Sara Thiam said. With those sorts of initiatives, whether they come about through the UK shared prosperity funding or Scottish Government funding, or through city deals or whatever, local small businesses can feel that they are out of the game a little bit, and that the types of projects that are being proposed are not necessarily ones that they would pick if they were in charge of the decisions. That might be what the comment at the meeting was referring to, but I cannot tell you with any degree of certainty, I am afraid.

Sara Thiam: I will take the question away, in fact, and come back to the committee.

Willie Coffey: Sara, you probably put your finger on it when you mentioned the enterprise agencies focusing on the higher-profile businesses. That is where I was going with the question. Most of the local businesses in our constituencies are really small; you said a moment ago that businesses are working just “to keep the lights on”. Along comes a fund like the one that I mentioned and, somehow, the businesses that would benefit most from that type of funding do not seem to get it. I invite you to say whether you are familiar with that experience, and whether it is still something that we need to overcome.

Sara Thiam: It is a tricky one, is it not? One of the challenges around the raft of funding that came out during Covid was that we were having to act very quickly, because certain sectors simply could not operate—they could no longer hold events and they had nothing coming in. Practically every week, we heard from bars, leisure businesses and taxi drivers and identified a different part of the economy that was struggling because of Covid, because those businesses simply could no longer do what they normally did. That was inevitable because of the crisis, and things were evolving so fast.

It is a tricky question, however, as Government cannot do everything. It has to pick priorities and try to be strategic but it has limited funding, so it will have thought about what the right thing to do would be. One of the strengths of our enterprise agencies, like Highlands and Islands Enterprise, is that they have a real understanding of the place, what the drivers are and how they can provide

broader support around infrastructure while focusing on high growth and on interesting sectors that they feel have real potential to grow and to benefit the economy in the longer term.

Willie Coffey: I represent Kilmarnock and Irvine Valley, and I would predict that 99 per cent of the small businesses in my constituency have probably never heard of that funding and probably never will. That is the issue for me. Have we picked the wrong agency to disburse it? Should it be Business Gateway, which has more of a local focus?

Sara Thiam: Another point that I was going to make is that Government can do so much in addition to funding. Funding inevitably has specific criteria attached that depend on the objective that the Government is trying to achieve, but there is a wider set of things that it can do as a customer and as a procurer of services. When procuring things, can we make sure, as far as possible, that the opportunities go to Scotland-headquartered or Scottish-owned businesses and that the high-value jobs stay here? That is the kind of thing that Government can do. I know that it is not always easy, but there are a lot of other tools that Government has at its disposal. Some really interesting and brilliant work has been done by Government and local authorities around community wealth building, particularly during Covid, and on local sourcing and so on.

Willie Coffey: The issue for me is whether we are choosing the correct model to disburse the money to the small businesses that need it and whether Business Gateway would be a better model, because it is much more closely connected and aligned with constituencies such as mine that do not have the necessary engagement and relationship with enterprise agencies.

Sara Thiam: I do not know. Colin, would you like to answer that?

Colin Borland: Instinctively, I would say yes, because you are right that that is where Business Gateway is. That takes us into an interesting discussion about how what we are trying to do fits in with the enterprise agency structure. At the end of last year—4 December is what I have written down—the Deputy First Minister mentioned in a letter to the committee that the Scottish Government

“is currently developing a comprehensive programme to reform economic development ... working in partnership with our enterprise agencies and other key stakeholders”,

and that business support was one of the three priorities of that reform. We do not know much about that, so I am not sure what the thinking or objective is but, if the reform process is on ministers' agenda, we could certainly use it to

address some of the issues that you are talking about today.

Willie Coffey: I know from what I have read that that has been followed up. From my perspective as a constituency MSP, it is really important to make sure that the money actually reaches the targets that we hope for.

Another funding announcement was that £90 million would be set aside to reduce economic inactivity. The Deputy First Minister spoke directly about that at the business group meeting, but some colleagues noted that 35 per cent of folk coming back into economic activity are falling back out of the labour market reasonably soon after that. There is a whole variety of reasons why—family, social circumstances, travel, costs, equipment, resources and all of that. That makes for a slightly different question: funding is great, but how do we make sure that the people who we bring back into economic activity are able to stay in it? Is there an issue for us to improve on to make sure that we retain people in the market?

Rose Marley: On that, I would comment on democratic participation in business, whether that is through worker co-operatives or multistakeholder models. We are seeing a lot of developments in areas such as social care. For the first time, we are bringing into the group a recognition that inclusive businesses tackle such subjects.

To go back to the point about what is happening at Westminster and how it impacts on Scottish Government, we need to ethically grow the gig economy. Economic participation is very black and white—you are either working or you are not. However, the way that society is going is that people, particularly young people, want career portfolios and the ability to work in lots of areas and places. We are missing a fundamental point, which is that inclusive businesses are more willing to accept people in part-time roles, for example, or those who have care needs that will affect their working environment.

There are two things. One is that inclusive businesses are good at dealing with economic participation. They are more likely to take on people who have offended in the past or people who are marginalised in the community. The bills on workers' rights and employment that are progressing are a concern, as they do not enable employers to take a chance on people.

The second thing, which the Scottish Government would do well to address, is how we grow the gig economy in an ethical way that underpins rights and people's ability to access mortgages, for example. We are moving to a four-day week, and automation is coming in, so there is a much bigger picture to consider. We are not

tackling it now, and because of that the situation is going to get worse.

Duncan Thorp: On the point about who is giving out money and where it goes, there is an on-going issue in general about which businesses get public money. When we see awards go to particularly big businesses, we think, "Actually, that could do far more good if it went to a bunch of small businesses rather than a big corporation." There is an on-going issue not only about who is distributing the money and to which organisation, but about which organisation is in receipt of the money. There are certainly questions about that.

Willie Coffey: What about retaining people? People come into the job market and suddenly fall back out of it for a variety of reasons. How do we tap into what those reasons are to try to make sure that people stay longer?

There are social issues surrounding productive employment, for example. Does the fund help those aspects? I am not sure. Based on your experience, do we need to do more sideways work to assist people to stay in the job market?

Duncan Thorp: Purpose is a huge issue when it comes to retaining staff. Rose Marley touched on the fact that people, especially younger people, are looking for purpose in work. They are not just looking for any old job in a big company, for example—not to attack big corporations too much. Instead, they are looking for purpose; they want a reason why they are going to work each day. That will increasingly become an issue. If we want to retain staff, we need to give them purpose.

Rose Marley: Just to add to that, we ran a survey across the UK about that, and the results showed that 47 per cent of people in gen Z have either left a job or turned one down because it has no purpose. That is a big issue for our young people. Young people's attitudes to work are very different, particularly from those of gen X and older.

Because young people have been told for so long that they are not going to have a job for life, they are not actually looking for one. We need to know how we can retain good and healthy work-life balances in a way that suits the new attitude to work that is coming through. A lot of people in the institutions and organisations that are setting workers' rights have had a different experience, in which there were jobs for life. You touched on an important issue.

Another point is that, as Sara Thiam touched on, a lot of small and micro businesses do not have the resource to even fill in funding forms. If the form is not put in front of them in a digestible way that enables them to complete it, because of the fatigue of filling in forms and getting nowhere, we have already hit a barrier. From my members in

particular, there is bit of eye-rolling, because they think, “We are not going to get that.” They have already decided that they will not get it. They certainly do not have anybody in the business whose job is to find such funding.

I agree that the Government cannot do everything, but Government agencies can do a lot more proactive work and hand holding—that is the reality. It is not that businesses do not have the education and skills to be able to access the funding; they just do not have the resource.

Willie Coffey: Thank you, everybody, for tackling those questions.

The Convener: Jamie Halcro Johnston wants to come in on the back of that.

Jamie Halcro Johnston (Highlands and Islands) (Con): It is on that and the enterprise landscape. Colin Borland said that the Deputy First Minister is looking at the enterprise landscape, and that he is waiting to see where that goes. Does that not highlight the problem, which is that, given how important small businesses are for Scotland, you—a representative body for small businesses—are not involved in the development and consideration process as much as you would want to be?

11:00

Colin Borland: I would like us to be more involved in that. We are the major client group and target market and probably the most difficult people to reach, but we are also where growth is going to come from.

Loads of people are out there chasing after the next tech unicorn—they will have plenty of representation and be fine. It is the people working in communities, employing people who are far from the labour market, working to address economic activity and all the rest of it who will need support if we are going to broaden and strengthen the economic base. We very much want and expect to play a full part in that process.

Jamie Halcro Johnston: Given that the Government has come forward with the new deal for business group and talked about having more engagement, why is it not happening?

Colin Borland: It will take time. I accept that it is a cultural change, and I am conscious that the new deal is not going to be new forever. This part of the process is going to end next month, so we need to find a mechanism to take forward and embed the wins that we have secured in that time.

I am sure that in a later committee session you will talk to the officials who are in charge of implementing some of this stuff. They speak a lot about how people can embed change in the

culture and make it happen internally. I accept that the culture shift will be difficult and will take time—it will not happen overnight.

When we spot examples of issues and think, “Wait a minute—under this new process you should have done X,” we can highlight that and take it back. To be fair, when we have highlighted such examples to officials, they have been very responsive and receptive and said, “Right, yes—good point. We will take that back and try to wind it back.”

There are good examples of engagement. You can disagree and be sceptical about the policy but respect the process and how it is handled. The visitor levy is a good example, as we have serious issues with its implementation across the country and we were dubious about the principle but, to be fair to the minister in charge, Tom Arthur, he was completely open about the compromises that he was having to make and how he was sailing the bill through the Parliament. That was an example of how you expect engagement to be done.

We are nowhere near where we need to be yet. The Scottish Government is a huge and complicated organisation, and I would not know how to do this. However, we are ready and keen to deliver, because I think that the benefits for our members will be tangible.

Sara Thiam: I reiterate my earlier points. It helps everybody if you engage early and continue to do so throughout the process. Where we can add most value as an organisation, and where we have perhaps worked more closely with the Government in the past, is having an early conversation about an issue and saying, “We know that this issue is a challenge for Scotland, and we all have something to bring to the party on it, so how can we get there?”

It is critical to have those early conversations before anything has been decided. We have talked a little about the process and critical success factors, but the key thing is that there has to be integrity. Do not consult people about something that you have already decided on. You have to involve people early in the process and say, “Here’s the nature of the challenge that we face as Scotland. We have some of the levers; you have other levers. What can we all bring to this?” There will be compromises and changes to make along the way, but that is how we need to proceed. It is a process of culture change.

Jamie Halcro Johnston: Colin Borland talked about the visitor levy, which is a serious issue in my region of the Highlands and Islands, and a number of councils are consulting on it. That is very much an area where the sector does not feel listened to. Concerns have been raised repeatedly about the implementation, delivery and impact. It

is accepted that certain councils will take the levy on board, but it will not be easy to deliver, because of the way that it has been set up and voted through the Parliament.

Are there sectoral or geographic differences in the extent to which businesses or local areas feel engaged with?

Sara Thiam: From the outset, the organisation that I am part of has recognised that there is not a one-size-fits-all approach when it comes to the economy. The economy looks very different in the central belt, the Highlands and Islands or the north-east. That is why we have regional committees that comprise business leaders, local authority chief execs, university principals and key members of civil society, so that we can have a conversation that asks, “What are our key challenges in this place?” Those committees work very closely with us, because we have been hearing precisely those issues.

There are two important dimensions to your question. The first is that it is critical to be able to take a cross-sectoral view, and it is equally important to understand the different constraints of each place. You can see why Edinburgh needs something like a visitor levy, but that would be very challenging for other geographies in Scotland. It is about figuring out a policy that will work for different parts of Scotland and having the ability to adapt policies or to have regional differences.

Jamie Halcro Johnston: There is always a feeling that government does not listen or engage as much as it needs to, whether that is local government for the Highlands in Inverness or the Government in Edinburgh or Westminster.

Colin, you brought up the issue of the visitor levy. Are you seeing the same thing? Is there a difference in the geographical or sectoral feeling of engagement?

Colin Borland: The sort of disquiet that we see from members in Edinburgh is pretty much the same story that we are getting from members in the Highlands. It is a question of whether Scotland can have polar opposites, or at least significant differences, in the system between the two areas.

To go back to Ms Thomson’s question, business does not always make a distinction between which bit of government is doing something to them—it is just the government. Despite the process behind the legislation, there are serious concerns about how its provisions are now being implemented. I believe that over half of Scotland’s local authorities have a visitor levy under active consideration.

Jamie Halcro Johnston: Thank you.

Lorna Slater (Lothian) (Green): I have a couple of specific questions on which, I hope, you

will be able to give some information. I am interested to hear how you feel about the business and regulatory impact assessments, with respect to the review that has been part of the process. Do they properly and adequately incorporate the benefits of co-operative and other inclusive and democratic business models? If they do not, what changes need to be made to the BRIAs to make sure that those benefits are accounted for?

Rose Marley: That relates to the point with which we started the meeting: the fact that we are even in the room is considerable progress. Without a doubt, there are things that we need to change. As I mentioned earlier, there is the education aspect across public bodies and anchor institutions. The Scottish National Investment Bank could be doing a lot more to ring fence funds for investing in inclusive and democratic businesses.

There is no understanding of the outreach and the early-start aspects, and if you go to any of the agencies when you are looking to set up a business, they will not talk about inclusive business models.

One of the things about co-operatives—I know that Lorna Slater is familiar with this—is that people will say that it is really difficult to set up a co-operative, but they then find that they are way more resilient. In the pandemic, we saw that they were five times more resilient than traditional forms of business.

A big part of that resilience relates to the difficulty in setting them up, because you have to talk through lots of questions and understand them, whereas with some forms of business you can just set up a business within a day and that is it. However, the things that you have to consult co-operative members on—what will happen if you make money and what will happen if you do not make money—are considered in the initial set-up. Co-operatives are perceived as being hard to set up, but the resilience that you get at the other end is a result of many such business considerations having been worked through.

We would also like to see the right to buy for communities extended to workers, particularly in relation to at-risk assets, so that the workers could take over businesses. We do not think that those types of businesses are understood, although that is the picture across the world.

It is the United Nations international year of co-operatives. That brings us back to the idea of the wellbeing economy, because co-operatives and other forms of inclusive business will progress towards the sustainable development goals more effectively. Things such as equal rights for employees and for women and girls are inherently built into those business models, but they do not

produce high rates of return in terms of private business and extractive wealth, so raising of investment, for example, is not so easily accessible to them. Therefore, our recommendations relate, for example, to raising investment, to education and to regulatory work around things such as the community right to buy.

Duncan Thorp: I pretty much agree with Rose Marley. We were not directly involved in the new deal for business group in relation to its regulatory work, so I am not too familiar with the in-depth aspects of that work.

In general, we need to look at regulation in terms of different sectors: regulation does not have to apply across every sector. For example, charities get business rates relief that is particular to that business model. As part of this work, we need to look at business models, especially impactful business models such as co-operatives and social enterprises, and to consider how regulation might be altered to help to grow those business models.

Rose Marley: I will give you a practical example of an issue in relation to investment. A co-operative is owned by all its members, so who signs the personal guarantee? Really simple things such as that are misunderstood in relation to such businesses. That plays out at Government level, because even in drop-down menus online, for example, they are not recognised as business types, so there is a lot of detail to deal with. Even when the ambition is really strong, there are a lot of hurdles, when it comes to the detail.

Duncan Thorp: Some of those things are actually quite simple and straightforward to deal with. For example, I believe that Public Contracts Scotland recently changed its drop-down menus so that you can search for socially impactful organisations. As I said, some things are quite simple and straightforward to address—they are just not actioned.

Sara Thiam: I would ask what the metrics would be for socially impactful organisations. Is it businesses being part of the B Corporation Movement, for example?

To come back to the business support point, all that I would add is that this is about conditionality. In other words, where the Government is providing that kind of funding, are we ensuring that businesses are purposeful businesses that are more resilient because they are thinking about the environment and society, as well as seeking to make a profit?

Lorna Slater: Colin Borland, that question was not put directly to you, but do you have any thoughts, before I move on?

Colin Borland: No, not on BRIAs.

Lorna Slater: The witnesses have sort of answered what was going to be my second question, so I will deviate a bit.

When you notice challenges, whether those are as simple as a drop-down menu—although I know that such things are never simple—or an issue such as Business Gateway or the enterprise agencies just not directing people down that path, who do you go to? I ask because you were not part of the new deal for business group, so do you have a mechanism to flag that up and say to Scottish Enterprise that it has not included you?

Duncan Thorp: It is complicated. In a sense, I would not know where to start. For example, if you go to your local Business Gateway, it is pretty much the case that it will not talk about social enterprises or co-operatives. That will just not be part of the conversation—the exception being when entrepreneurs themselves raise the issue. That example comes up quite a lot but, in a sense, why would it be mentioned, given that Business Gateway provides mainstream business support? It will not necessarily talk about business models, although, in my view, it probably should. That is one example, but Rose Marley might want to add to it.

Rose Marley: This touches on Lorna Slater's question and Jamie Halcro Johnston's earlier question. We are seeing a model emerging that is about embedding that understanding in local government and, potentially, in the Government itself. We are seeing the growth of multistakeholder co-operatives that are formed of private businesses, individuals, beneficiaries of whatever the business is and local government.

Greater Manchester Combined Authority is doing really well at spearheading such ideas, where a business is created in which all those stakeholders come together and the purpose of the business is to tackle, for example, modern slavery—as is the case with the Bright Future (Co-operative) Ltd. Members of that co-operative include the Co-op Group, Aldi, Morrisons and B&Q, alongside beneficiaries.

We could be a lot more innovative in the way that we tackle some such issues. The big point that I would make is that there is lots of detail that makes it more difficult to trade as an inclusive business. I also do not think that we are pushing the boundaries of innovation as much as we could, or using such models to really work together.

11:15

Lorna Slater: It seems that there are two themes developing. One is around how we mainstream those businesses. That probably means getting Business Gateway, the enterprise agencies and so on to make sure that they are

included. I would be interested to hear from witnesses whether they have ideas on how mainstreaming could be better achieved. Please feel free to write to us later, in relation to that.

The other theme is innovation, so there is the point about mainstreaming of existing practice, and a point about opening up the space for innovation in other business models, as well. Does that seem to capture it?

Rose Marley: Yes, absolutely.

It is hard. We have some members in energy that have needed to raise greater investment and have used the community shares mechanism, which is a really strong innovation. For those of you who are not familiar with the community shares mechanism, it is like crowd funding, but members get to own a piece of the organisation. We also have booster funds whereby when members raise money, we can boost it.

There is also the point that I made to Mr Coffey earlier about how much time businesses have for any of this. It is about making it really easy and saying, "We have a programme here that allows you to plug in in a way that suits your business."

It is about innovation, but it is also about the mainstream agencies understanding what is being tackled.

I note that boosting community shares would also be an excellent way to get more funding out of citizens. Whether the business relates to climate, energy or other topics that we have mentioned to do with economic participation and participation in work, people will buy shares not because they will get high returns, but because they care about, for example, their local football club being retained in fan ownership. We are simply not tapping into that.

In addition, when models do not work, we tend not to look for ways to make them work. We say that it is too hard or too difficult.

In my view, a paradigm shift and a culture shift in relation to the way that we are tackling business would bring it all together.

Duncan Thorp: As Rose mentioned, we need to use community shares, for example and to tailor products and services to purposeful businesses. We also need Just Enterprise, which is Scotland's specialist business support for enterprising third sector organisations, to give that mechanism a bit of a plug.

We also need to bring together various policy strands that are quite similar. I probably made that point at the last committee meeting that I was at, as well. The work of the business purpose commission was very closely aligned with fair work, community wealth building and social

enterprise. We have shared values, in effect. We need to do better at bringing together different initiatives that overlap.

Lorna Slater: My final question is more for Colin and Sara. Within your organisations, you must have members that are co-operatives and other more democratic business models. Do you sense that there is a difference in how they participate and in the kind of support that they get?

Colin Borland: Yes—

Sara Thiam: Do you mean in terms of the business support that they get?

I am sorry—carry on, Colin. You go first.

Colin Borland: I am sorry, Sara.

I was just going to say that we have members that are structured as social enterprises, and others. However, we do not break down how they access our services according to that. I imagine that the reason why they—particularly employers—join us will be things such as the 24/7 employment line, the legal advice line, tax protection and other such benefits. I certainly do not have any information that would suggest that they use our services any differently from businesses that are structured in other ways.

Even if they are for profit, a lot of small businesses deliver significant community benefits. If there is not a functioning local economy, there is not a functioning local community. Small businesses have a good record of employing people who are further from the labour market. We trade in areas that have been abandoned by the public sector and the big corporates. We are much more involved in our employees' lives than are businesses that have tiers of faceless middle and senior management.

Sara Thiam: Although Prosper's membership is wide and deep—including businesses large and small, local authorities, trade unions, universities, colleges and so on—we see ourselves as the home of purposeful businesses and as the organisation that pulled together the business purpose commission in the first place. Our member businesses understand that it is in their own interests to have a positive impact on the communities in which they operate, and on the environment. People will want to work for them, to invest in them and to buy from them. When business support is on the table, the Government will want to support such businesses because they practise fair work.

It is interesting that, in my organisation, from the very get-go the trade unions were around the table. That is much more like the continental European model, in which social partners are in the boardroom. That relates closely to a point that Rose Marley made.

It is important to ensure that the businesses, whether they are not for profit or otherwise, are recognised and included in the mainstream. The business purpose commission made a series of recommendations that were endorsed by the Scottish Government, but the people who were involved changed and the officials changed, and there was new thinking about the wellbeing economy. However, a lot of positive work was done.

The labour market has been so tight in Scotland—we are short of people, and especially young people—that businesses have had to make more effort to attract and retain people, and have had to think carefully about the wellbeing of their employees. Covid changed things fundamentally—not least because all of us now have to take very seriously our pastoral role, to check in on our people and to make sure that they are safe and that we keep our customers and clients safe. The world has changed and young people, in particular, do not want to work for the bad guys any more.

Lorna Slater: Thank you.

Sara Thiam: Business has a positive role to play and it is doing a lot already. Sometimes that is not recognised.

The Convener: I have a final question for you to answer briefly. Colin Borland made the point that the new deal will not be new forever. I do not know whether we will have a new new deal. Should the new deal for business continue and, if so, in what format?

Sara Thiam: I said earlier that the new deal was of its time: it was in response to a particular set of circumstances. I would not advocate for its continuing in its current form. It is time to look at what we can do better with our existing structures.

Duncan Thorp: Let us consult the business community and ask businesses what they want and need. That is the right approach—a bottom-up approach, rather than the Government saying, “This is what we want.”

Rose Marley: I advocate for a co-op to be set up and for business and the Government to work together, in the same way as we have used some of the models that I spoke about earlier. That would allow business to flourish and grow, and it would support the wellbeing economy. It would involve open and voluntary participation for all businesses that are interested in it. We should not decide in advance who is in which group and who should be represented; rather, we should open it up to people and businesses themselves to come together and to effect positive change.

The Convener: You have the final word, Colin.

Colin Borland: Bank the wins—all the tangible things that we have talked about, including the new policy cycle, the new BRIA, the cabinet sub-committee and the cumulative impact work. Bank them, get on with implementing them and find a way to involve us in helping with that implementation. Then, by all means, we could park the rest of it and move forward. A lot of people have put a lot of work into delivering the things that we have been talking about for years. We do not want to throw that baby out with the bath water.

The Convener: That brings us to the end of today’s evidence session. I thank all our witnesses for joining us today and for their very thorough answers to our questions.

11:25

Meeting continued in private until 11:51.

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