



OFFICIAL REPORT
AITHISG OFIGEIL

Economy and
Work Committee

Wednesday 1 October 2025

Session 6



The Scottish
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Wednesday 1 October 2025

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ECONOMY AND FAIR WORK COMMITTEE

27th Meeting 2025, Session 6

CONVENER

*Daniel Johnson (Edinburgh Southern) (Lab)

DEPUTY CONVENER

*Michelle Thomson (Falkirk East) (SNP)

COMMITTEE MEMBERS

Sarah Boyack (Lothian) (Lab)

Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

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

*Stephen Kerr (Central Scotland) (Con)

*Gordon MacDonald (Edinburgh Pentlands) (SNP)

*Lorna Slater (Lothian) (Green)

*Kevin Stewart (Aberdeen Central) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Colin Cook (Scottish Government)

Kate Forbes (Deputy First Minister and Cabinet Secretary for Economy and Gaelic)

Aidan Grisewood (Scottish Government)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy and Fair Work Committee

Wednesday 1 October 2025

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Daniel Johnson): Good morning, and welcome to the 27th meeting in 2025 of the Economy and Fair Work Committee. This morning, as part of our pre-budget scrutiny, we will take evidence from the Deputy First Minister, Kate Forbes. Before we do so, I first note that we have received apologies—*[Interruption.]* I ask everyone to turn their phones to silent. I probably should have said that before. We have received apologies from Willie Coffey, and from Sarah Boyack, who is joining the committee, so we will defer item 1.

Agenda item 2 is a decision on whether to take business in private. I refer members to papers 1 and 2 in their information packs. Do we agree to take items 4 and 5 in private?

Members indicated agreement.

Scottish Government Priorities

09:31

The Convener: We are pleased to be joined by Kate Forbes, the Deputy First Minister and Cabinet Secretary for Economy and Gaelic, alongside Scottish Government officials Colin Cook, who is the director of economic development, and Aidan Grisewood, who is the director of jobs and wellbeing economy.

We will launch straight into questions after I open with an observation.

Over recent weeks, we have been taking evidence from enterprise agencies and the Scottish National Investment Bank. It has struck me that they are all clearly doing lots of good work in relation to attempting to take direct action and promote economic outcomes, but I question how well co-ordinated that activity is, because they all seem to be reporting on different metrics and in different ways.

If we compare ourselves internationally, 1,300 people work for Scottish Enterprise alone, which compares to the around 700 people who work for Business Finland. Enterprise Singapore employs around 2,000 people, which is slightly less than the total number of people who work across Singapore's enterprise agencies.

Could we do a better job of joining up such activity? Do we get a good bang for our buck from our enterprise agencies?

The Deputy First Minister and Cabinet Secretary for Economy and Gaelic (Kate Forbes): There are a lot of questions in there. Let me start with the high-level perspective, which is that the enterprise agencies have never been as strong as they are right now. I say that on the basis of hard, cold data and evidence.

If we look at Scottish Enterprise's results during 2024-25, for example, we see that it delivered the highest-ever level of planned international sales, reaching an unprecedented £2.46 billion, which is a 20 per cent increase on the previous year. If we look at some of its other statistics, we see that it has achieved 15,000 new and safeguarded jobs, £442 million in business innovation investment, £1.16 billion in business capital expenditure—the second highest on record—and £367 million in growth funding leverage. That is just Scottish Enterprise. I will not go through the data for the other enterprise agencies and the bank, because that would take some time.

My point is that the figures, which we analyse closely, are extremely strong. That is what I want to see. I want to see what our investment in those

enterprise agencies is delivering for Scottish business.

I will make a second point, because the convener asked about collaboration. The committee might recall that, about eight or nine years ago, there was extensive public discussion about whether the enterprise agencies and the skills landscape at that time—this was prior to the bank existing—should be brought into one loose organisation. The committee might recall the enormous backlash to that. That, I think, has delivered far more independent and results-oriented enterprise agencies than would otherwise be the case. Highlands and Islands Enterprise, in an area that I know closely, drove the push against any enforced collaboration from Government.

HIE is doing sterling work, and not just on delivering the economic outputs—I could go through the data on that. It is also being a leader in the Highlands and Islands economy by bringing together all the different elements that drive economic growth and prosperity in the region. In collaboration with partners, it has quantified the scale of investment over the next 10 years at £100 billion in life sciences, energy and so on.

I am particularly interested in your question, convener, because of your interest in local government reform. On a number of occasions, you have put to me questions about mayoral authorities and local government reform more generally. My argument is that, ultimately, it comes down to strong leadership. What you see in HIE and South of Scotland Enterprise, in particular, is strong regional leadership that is delivering what you want to see from the mayoral authority model. I have answered that in two ways. I have talked about Scottish Enterprise's strong results and about local regional leadership.

I will make a final point, which is that there is still a need for collaboration. Since coming back into government, I have been driving collaboration around the particular outcomes that we want to see. We have taken the question of attracting investment and, every quarter, I get all the chief executives—from the enterprise agencies, the bank, the Crown Estate and the Scottish Futures Trust—in a room to go through the structures in which they operate together, as well as the investment approach that they take and where the collaboration is. In the past year, in particular, I have been driving that collaboration really intensely so that they can demonstrate that they are working together more closely.

On attracting investment, we should not forget the office for investment, which international investors often engage with at United Kingdom level. I am pleased to say that the drive for collaboration across the enterprise agencies has

pushed me to take a proactive approach with the UK investment minister. I have not met the new one, but I had a very good working relationship with Poppy Gustafsson and the office for investment in relation to ensuring that, when a business is trying to engage with the public sector, it has one gateway and finds that everything flows from that, with a process that is as streamlined as possible.

The Convener: On agencies' insight into regional approaches to what drives economic growth, I do not particularly disagree with the work that HIE and SOSE do. They do an important job on that agenda. However, although we would not want all our enterprise agencies reporting on exactly the same things—that would be counterproductive—we should surely have them reporting on some of the same things, so that we have some common points of reference. It strikes me that we do not really have that.

Secondly, beyond the metrics point, and looking at other countries, Sweden has been on a similar path. It has a comparable number of enterprise agencies, but it also has an explicit team Sweden programme, whereby each of the agencies has a clear understanding of how it interfaces with the others, to the point where each of them articulates that clearly and explicitly on their website. Could we use more comparable ways of understanding and measuring our outcomes? Should we, in a qualitative sense, be better at articulating where they fit and collaborate together, as well as the areas where they do their own thing, so to speak?

Kate Forbes: That might come down to a question of presentation, because, by and large, my view is that the enterprise agencies are reporting on the same metrics. For example, you can see the figures on planned international sales for the different enterprise agencies. There are two caveats to that. First, SOSE is at a different point in its life cycle; it is relatively young and is still choosing where to focus its attention, but it already has impressive statistics. Secondly, coming as it did out of the Highlands and Islands Development Board, HIE has always had a big social focus; there is still funding that goes through HIE into local development officers, for example, to a much greater extent than you would ever see in Scottish Enterprise, for very obvious reasons. It is important that there is still some regional variation.

On the presentational point about bringing together key metrics such as planned international sales, investment and innovation, there are quite a number of overlaps in the metrics. I will ask Colin Cook to come in on that.

Colin Cook (Scottish Government): I will build on that. We have a central sponsorship team in the Scottish Government, which is responsible for sponsoring each of the agencies, so that is a

collective point where they come together. The guidance letters that determine the priorities for the agencies come from a single source, and there is a lot of commonality between them. Not only do we meet and assess their performance individually, but we have joint meetings with the enterprise agencies, the Scottish National Investment Bank and, sometimes, others, so there is a collective forum for discussing progress. I also point to areas such as the development of offshore wind, on which Scottish Enterprise and Highlands and Islands Enterprise collaborate on projects on the ground and work together to bring in investment.

In reality, the system is working. That is not to say that we cannot improve the way in which we work with our agencies, which we will always look to do. It is also not to say that we will not assess that in the context of future public service reform and the degree to which we can strengthen regional economic partnerships. However, the processes are in place to drive a consistent view behind Scotland's economic priorities as defined in the national strategy.

Michelle Thomson (Falkirk East) (SNP): I will return to a theme that I suspect will not surprise you: the representation of women. I know that that is important to you, too, Deputy First Minister. In your update yesterday, we heard ample evidence of that in some of the stats that you mentioned about the Techscaler programme and the work that you have done with Ana Stewart.

In readiness for this meeting, I revisited information about the national strategy for economic transformation—NSET—which retriggered my frustration that I have found it impossible to find disaggregated data that shows exactly what the position is for a whole variety of measures, specifically for women. I wonder why we are still at that stage, because the record will show that I have asked that question not just of you but of other people. Why it is so difficult?

Kate Forbes: I know that that is a recurring issue. When you said that I might guess where you were going with your question, I thought that it would be one of those two areas, but you managed to combine both areas in one question—I was right in that regard.

I understand your long-standing frustration with data. I will ask Aidan Grisewood if there is anything further to add on that.

We just published our third NSET report, which is the third annual report. By and large, what we analyse from a Government perspective is whether we have delivered what we have said we will deliver. What is not in that report—at least to the extent that I know you would like—is analysis of whether what we have delivered is having a

positive impact across different metrics. There is a point there; we should probably do that later down the line, because pathways are still being rolled out.

We have really good granular data on particular areas of focus—Techscaler is the most obvious example. With the more recent initiatives that have been established, we have taken a data-first approach, hence having very granular data for Techscaler. I am happy to send the committee the more granular data that never makes it on to websites, because that might be an area of interest. You are absolutely right to say that Techscaler shows up, as it were, all the other initiatives that have not been established with a data-first approach. The data for those is still lacking.

09:45

Michelle Thomson: Why is that the case? I am entirely happy for you to refer to either of your officials on that. I know that I have asked the question before.

We focus on what we measure and, by continuing not to measure or collect the data, we end up with a skewed picture. I read the update the other day, and I got quite excited when I saw a bit about a case study on women, but then it drifted off into some other irrelevant stuff. It looked as though it was a bit of a sop: a case of saying, “We had better stick something in here”, rather than a systemic approach.

In fairness, I concede that that is the case in relation to not only data about women but disaggregated data in general, and there could be other areas in which it could be vital. We have had a conversation about the different enterprise agencies, and we know that having the data in different areas gives different insights, which are so important. It is a general frustration. We know, for example, that the measure for the gender pay gap excludes part-time workers, yet the vast majority of them are likely to be women. It is also about income tax receipts, income inequality, entrepreneurial early-stage activity and three-year survival rates. I want to know how those are for women. So, why not have that data?

Kate Forbes: I will bring in Aidan Grisewood on this.

I note that it is sometimes a question of presentation. Where we have very disparate programmes, it is a question of trying to bring them together in one place. For example, we have quite good granular data on gender in and around employability schemes, and we also have some on Techscaler. However, those are simply sitting as individual pots, rather than being brought together.

Aidan, do you have any thoughts?

Aidan Grisewood (Scottish Government): I agree that there is more that we can do on this.

We try to keep the annual report pretty consistent each year, but I reflect on the extent to which we can extend that to include more disaggregated data on particular things and to add new data. There is a principle of ensuring that we keep the goalposts the same, but we can make the report more rich with equalities data. We could provide the committee with more information that we have in relation to key metrics in the report, but which is not necessarily set out in it.

I flag employability data as a good example of our having got more and more granular, including in areas such as the impact on child poverty—there are priority groups in relation to that impact to ensure that we are making the biggest difference. That has been challenging but helpful in ensuring that we do more to target ethnic minority groups, for example, who we were evidently underreaching previously.

I am less close to the enterprise portfolio, but I know that there has been a lot of work on Techscaler and that the team has been busy working on the back of some of Michelle Thomson's previous questions on what more could be done. I suspect that the data is there but is not being reported. In other areas, there is UK-wide data. When it comes to entrepreneurial data, we are reliant on international comparisons and UK-wide metrics, so there is probably something around that, as well.

Kate Forbes: If it is of interest to the committee, we could follow up in writing with a list of all the areas where I am confident that we are collating data that reveals gender figures; that is, areas where there is the level of granularity that will allow us to see where there are areas that still need some work. We could do that, if that would be useful. However, it might not be—Michelle Thomson is looking quizzical.

Michelle Thomson: I am. You are obviously going to proffer the positives, but we have to be just as interested in the areas in which we are utterly blindsided. I want to be able to challenge you on those areas and understand why we are still in that position.

I know that we have discussed this before, and I am not trying to create an industry around data gathering. I know how complex and time consuming that is, including the checking of it; I understand that. I totally accept what you are saying about Techscaler; the evidence is apparent to me, and I can see that you have been behind that, Deputy First Minister. However, in so many other areas, it is almost as though it does not occur to the Government that we might want to be

able to slice and dice the data to proffer different perspectives, which is utterly fundamental.

I care so passionately about that not just because of inequalities. It is actually about economic contribution, which I suspect is why you care so passionately about it, too. In the face of chronic labour shortages, we cannot afford to be complacent.

Kate Forbes: If it is okay, convener, I will share with the committee some of the granular employability data, because a lot of that is linked with some of the other points that Michelle Thomson has made. It has an impact on employment, ultimately. It also has an impact on challenges for women. After all, if somebody goes through an employability scheme, whether they stay in work a year later is nearly always indicative of wider pressures. There might be something interesting in that.

I do not know whether Colin Cook has anything to add.

Colin Cook: This is not an answer on the specifics of data collection, but you will be aware, Ms Thomson, that we have specific initiatives to address some of the historical underrepresentation of women and, indeed, other underrepresented groups in employability. In entrepreneurship, in particular, we have our pathways fund. Applicants to that will know whether they have been successful later this week.

There are activities happening. We work very closely with Ana Stewart, the chief entrepreneur, on that. I know that she does a lot of work not only in the Government but in wider private sector initiatives. The matter is a focus. We talk about it constantly and are trying to challenge ourselves. We will undertake the work that the Deputy First Minister has mentioned.

Michelle Thomson: I understand that clearly. The work that Ana Stewart is doing is fantastic.

That takes us back to a point that the Deputy First Minister made about where you get insights. Women's Enterprise Scotland commissioned some work, which I think the Scottish Government was behind, that studied female business leaders experiencing burnout. A key finding was about the lack of access to capital for women entrepreneurs over a long period of time. That survey started being about one thing but gave a critical insight into something that we know is an issue. We always need to have that lens because we cannot afford to let so many of our population not contribute to our economy when we have such a compelling mission as set out in the NSET.

Kate Forbes: I do not disagree at all. It is not an area that we have been neglecting in between

committee appearances, but it has lots of challenges to it. That is not an excuse, but we will come back to the committee in writing as comprehensively as we can about where we have disaggregated gender data.

Stephen Kerr (Central Scotland) (Con): Michelle Thomson used the phrase

"We focus on what we measure".

That should be enshrined above every doorway in every office of Government and probably every organisation. In the spirit of that, I will give you a softball first question, Deputy First Minister.

The Convener: Are you sure, Stephen?

Stephen Kerr: Yes. I will build up to something more.

We are just days away from Scotland's global investment summit. In the spirit of Michelle Thomson's reminder, what are we focused on and what deliverables can we expect from a Scottish Government perspective?

Kate Forbes: I will make one point that Stephen Kerr will know already: it is an industry-led investment summit. I am delighted about that, because it means that the summit involves the City of London and Scottish Financial Enterprise maximising their networks with the support of both Governments.

You asked what we want to get out of that. There are a couple of things. You will know that, in my approach to investment, I have been trying to improve on three areas. One of them is a targeted and more strategic approach to investors. We are really good at speaking to the people whom we know about; we are not as good at speaking to the people whom we do not know. At next week's investment summit, we anticipate a lot of investors who have not so far been active in Scotland and who are interested in getting in. This week alone, I have engaged with some of those investors who are looking to Scotland for the first time. On the first pillar—the investor relationship part—I hope that more strategic targeted engagement with those whom we do not yet know will be one of the results.

The second part is showcasing Scotland. There is a lot of familiarity with areas of Scotland that are open for investment; it is pretty well known that we are making the energy transition and that we have big industries such as whisky and salmon. However, what about our life sciences industry? We are going to showcase that. What about what we are trying to do in and around attracting private investment for housing? We can showcase that. We can showcase, to those who know us and those who do not, new areas of interest. That is not the endgame—that is just revealing what is available.

The third pillar is the area that I am most interested in: how do we build on the relationships that are established next week and follow up on those? My approach is that, although we have the initial conversation with a potential investor, it is not the politician who does the deal. We then bring in the experts in Government, often with the private sector, to sit down with those investors and ask what they need. Do they need some sort of public-private structured arrangement? Are there a lot of hurdles in their way that they need help from us to knock down? Do they need contacts? The follow-up is the most critical element.

What would I like to get out of that? I would like us to be able to identify—probably not next week, but in six months to a year—significant millions that have been pledged as investment in Scotland as a result of those early conversations.

Stephen Kerr: With regard to an immediate return, there may be a lot of good relationships and networking, but what about down the line? Are you expecting tens of millions of pounds, or hundreds of millions?

Kate Forbes: I always orient my thinking around the billions, I am afraid—

Stephen Kerr: To the bigger numbers—okay.

Kate Forbes: I know that, next week, we will have sovereign wealth funds and pension funds, and national representation, worth billions.

Stephen Kerr: It is a big moment for the Scottish economy.

Kate Forbes: It is a big moment.

Stephen Kerr: Let us see whether we can agree on something else, then. Turning to productivity, do we agree that it is the single most important driver of growth, living standards and public service funding?

Kate Forbes: It is certainly one of the drivers—it is certainly up there, near the top, if not the top.

Stephen Kerr: If not the top. Right—so we kind of agree on that. How much money does this area of your portfolio spend? How much have you got? It is about £1 billion, is it not?

Kate Forbes: In terms of my overall portfolio?

Stephen Kerr: In the economy brief.

Kate Forbes: It is probably a little bit less, if you are talking about revenue funding, unless somebody has the figures to hand.

Stephen Kerr: I think that it is roughly £1 billion a year.

Kate Forbes: I would quite like to have £1 billion.

The thing with productivity is that we cannot deliver productivity only through public spend. One of the challenges that Scotland has had for so long is incentivising business investment in productivity—

Stephen Kerr: I want to come on to that, because we are spending roughly £1 billion a year, say, in that area. We may agree—I think that we kind of do—that productivity is the most important driver, but we have not seen, over the past 10 years and perhaps even longer, any remarkable improvement there. We see some economies around the world where there are tremendous leaps forward in national productivity but, in Scotland, although there is a little bit of improvement, we have not really covered ourselves in glory in that respect.

I want to ask you specifically, in relation to that, about the number of businesses that we have in Scotland. Over the past five years, the number of businesses in Scotland has actually fallen, by about 5 per cent. What do you put that down to?

Kate Forbes: The past five years have been extremely challenging for businesses because of higher costs, including energy costs and, more recently, the hike in national insurance contributions, although I think that the impact of that will be seen in the years to come. Many businesses struggled hugely during Covid and, unfortunately, some did not make it.

10:00

Stephen Kerr: There is a churn in the life cycle of businesses. One area that could boost our economy and productivity where we have not done very well is the creation of new businesses. Roughly, over a 10-year period, we are creating new businesses at less than half the rate in the rest of the United Kingdom. That will have a negative impact on our ability to be a productive economy. What do you put that down to?

Kate Forbes: If you look at the figures for the first half of this year—

Stephen Kerr: I am looking at it over 10 years.

Kate Forbes: In the first half of this year, we were second only to the north-east of England and, in 2025, there has been an 18 per cent increase in new business incorporations.

Stephen Kerr: I am looking at it over a decade, which I think is a realistic purview of those sorts of statistics and dynamics.

Kate Forbes: My view is that it has been a challenging decade for many businesses and for the economy. Ultimately, that points to the need for a diversified economy in Scotland. We always see it in the income tax figures but, compared to

the rest of the UK, Scotland's industry is made up of some big beasts, such as financial enterprise and energy.

Stephen Kerr: There are about 100 companies that drive things.

Kate Forbes: That means that, when either of those sectors is affected, there is a disproportionate impact on the Scottish economy, whereas England, for example, is less dependent on its big beasts and is more diversified. The past 10 years have been particularly challenging for the two industries that I mentioned. Economic headwinds have a disproportionate impact on Scotland because of our reliance on some of the big industries.

Stephen Kerr: Another way of saying that is that a high level of our businesses—about 99 point something per cent—are small and medium-sized enterprises. I hope that you can understand the point that I am trying to make, but you have spoken about the roughly £1 billion that we are spending every year, yet we are not making much progress with national productivity. There are challenges with business survival, and the bulk of people who work in our economy are working in private SMEs.

Kate Forbes: I will need to come back to you with the data on that. We have a lot of small businesses but, by and large, the bulk of the workforce is employed by the bigger businesses.

Stephen Kerr: I think that you will find that it may be the other way around, but we can swap data on that. My point is that SMEs play a very important role in the economy.

Kate Forbes: Absolutely.

Stephen Kerr: It has been shown that that is a very difficult nut to crack.

The Government is spending money to try to drive productivity, which I think is the key economic driver, but we are not making headway. When we consider the budget, we ask ourselves about the issues and the problems with value for money. Clearly, we are not getting the £1 billion bang in this area. What is your analysis?

Kate Forbes: Let me go further than that. I agree that SMEs are the backbone of the Scottish economy. I also agree that productivity is critical, so let us unpack what drives productivity growth. First, technology and the adoption of digital technology; secondly, skills—in other words, people having the right skills for the right job and the ability to perform at the level that they need to—and thirdly, reinvestment of business profits, which I think that you are going to come on to. Those are three drivers of productivity. There are also other drivers, such as infrastructure.

My overall budget, if you include capital, is £1.3 billion. Immediately, you have to look more broadly than simply at my portfolio. We have to look at skills, training, wider infrastructure investment and digital adoption. I can do things such as support digitalisation and digital adoption in tech. When I refer to the tech industry, we should bear in mind that most industries are now tech industries. Yesterday, I spoke about the growth in med tech, for example. The £1.3 billion is delivering significant results, but it is much broader than that.

Stephen Kerr: I completely agree with you. This does not just concern one portfolio; it is about the whole direction of government. Digital skills are critical, in particular.

According to the latest data that I have, 21 per cent of firms say that their staff are “fully equipped” with digital skills—just 21 per cent.

Kate Forbes: Yes.

Stephen Kerr: Therein lies a clue as to why we are struggling to move the productivity needle. However, that is a Government priority—and I think that £100 million was committed to digital skills.

Kate Forbes: Prior to Covid, we had the digital boost scheme, which I think has come up at the committee previously. It consisted of low-level or entry-level support for digitalisation.

Stephen Kerr: Which is what is needed.

Kate Forbes: We have now moved to consider how far we can support businesses and the public sector—there being a big question around productivity in the public sector, too; in other words, it is a big contributor to productivity—through artificial intelligence, for instance. For some businesses, adopting or working with AI will be second nature, whereas it will be extremely foreign for other businesses. Richard Lochhead is leading the AI Scotland programme to support businesses.

You are absolutely right—I think that there is a lot more agreement here than otherwise—but that begs the question about the how.

Stephen Kerr: That is what I am trying to drive at. What we have been doing up until now has not had the significant impact that we all want in terms of return for the public funds that we are talking about in the budget. What do we do about that? One in five adults lacks digital capability, so what we have been doing has not been making any difference. I am looking to you as Deputy First Minister and asking, “What is the next set of ideas?”

Kate Forbes: I might disagree with the premise—I think that the approaches that we have taken have had an impact. Scotland’s productivity

has outperformed that of all regions of the UK over a 20-year period, recording an average growth in real output per hour of 1.5 per cent per annum. Despite that, productivity is still below the national average, and that is what we need to focus on. My argument is that what we have been doing has had an impact, but we need to recognise that the challenges that businesses are facing right now require a slightly different approach. AI is a new opportunity and a challenge.

Stephen Kerr: On that point, we have a particularly difficult problem in Scotland in relation to business investment. Our business investment percentages are among the lowest in the Organisation for Economic Co-operation and Development countries. I want to hear, from a Scottish Government perspective, what we are going to do differently to change that.

Kate Forbes: There are three things. Businesses are always more likely to invest when their costs are lower. If businesses are spending more on national insurance contributions, to take one example, they are less inclined to reinvest their profits. The first thing, therefore, is to support businesses by giving them a bit of breathing space to reinvest in productivity, which is a business choice. There is also something around demonstrating the benefit to the business of reinvesting in productivity. Some of the headwinds that we are experiencing, particularly those affecting labour shortages, are already driving businesses to reinvest, because they have to reinvest in technology if they cannot recruit. That is point number 1.

Point number 2 is about supporting businesses to transition to the new world in which we operate. There was a huge focus on that in 2018, 2019 and 2020, focusing on things such as digital boost through Business Gateway, with its adoption of technology. Covid drove that exponentially higher, in that businesses had to adapt anyway. We are now facing new challenges around AI—and I have already talked about what Richard Lochhead is doing around supporting businesses with AI.

Thirdly, there is the question of what businesses can do internally, among their sectors. We already support a number of initiatives. For example, in the advanced manufacturing sector, we have the National Manufacturing Institute Scotland, or NMIS, the job of which is to support innovation in manufacturing across all businesses that operate in that sector. A couple of weeks ago, I launched the deep tech supercluster, which is all about getting businesses to embrace technology. We are doing a six-month pilot with different sectors that need to embrace a more technological approach.

Those are three examples of what can be done and is being done, but it cannot be public-sector led alone.

Stephen Kerr: I am getting a signal from the convener. We could talk about this for a very long time, because there is so much to unpack on innovation-active companies. The problem that we have with technology in Glasgow as a major city is that it is below all the averages in all the areas that make a difference to local and national productivity. However, we do not have time to go into that.

The Convener: No, and if we do have time, there are some issues around data points that it might be useful to talk about. However, we need to move on for now. I will bring in Lorna Slater.

Lorna Slater (Lothian) (Green): I have three questions for the Deputy First Minister today. The first one is on the bigger picture of how the NSET enables the Government's stated intentions on climate and nature. I ask because there is a general concern on the committee that Government policy is not always coherent. The Government sets out a constellation of intentions, then the budget, then the NSET. However, it does not point out or indicate how the NSET will meet those intentions.

My specific interest is in climate and nature targets. The Scottish Government is imminently moving to carbon budgets. As the Parliament holds the Government to account on financial budgets, we will also start holding the Government to account on carbon budgets. That means that, for the same questions that we ask about how much something costs for any initiative, we will also ask how much carbon it emitted or how much it sequestered, because that budget will now have to be part of your accounting for every decision.

With the NSET going forward, how are you going to do the financial budget and the carbon budget alongside each other?

Kate Forbes: For definition purposes, I see the NSET in terms of its six pillars, and I see those six pillars as being for the entire economy directorate. We could use our economic strategy as a proxy for the NSET.

This is what I communicate to all our enterprise agencies and anyone who has the responsibility for delivering our economic strategy: we have to focus on the Government's priorities as stated in the NSET. Some of those have the climate approach inherent in their stated aim. It might be more difficult to see how skilled work is specifically a climate objective, but it is still critical to us getting to our net zero objectives.

Those objectives are going to have to fit within the carbon budget and the financial budget. We have set out our economic strategy, and that is what I expect all parts of the public sector to be delivering. They will all have to fit into a financial budget and carbon budget.

The financial budget is a challenge every year. We always want to do more than we can do, and that can also be applied to the carbon budgets. Every year, there will always be more that we want to do than we can do, but we have to fit into the carbon budget.

We are at the early stages of the financial budget process. I have a long list of things that I would like to see, but I doubt that I will be able to get every single one of them into the full cost. We try to deliver as much of it as possible. That means that we have to prioritise, and we can prioritise only within our stated aims.

The process is quite clear. Both budgeting processes run in parallel, and I know what we need to achieve within our six stated aims, and those budget processes need to deliver on those aims within the envelope that we will have, but the envelope is not unlimited.

Lorna Slater: What I am hearing is that you intend to run a carbon budgeting process alongside the annual budgeting process to ensure that all Government policy for which you are responsible, at least, fits within our carbon budget.

Kate Forbes: Gillian Martin has laid out our approach to the climate change plan, and we also have the advice from the CCC on carbon budgets.

Lorna Slater: Much of which the Scottish Government rejected.

10:15

Kate Forbes: We will have to demonstrate how every part of the Government is in accordance with the climate change plan. That is the approach that we will take, and the economy directorate is not immune from being part of that process.

Lorna Slater: My next question takes a slightly different approach. Recently, the committee looked at the Community Wealth Building (Scotland) Bill at stage 1. That bill has two purposes—one is to reduce inequality and the other is to support economic growth. When the Minister for Public Finance, Ivan McKee, was in, I asked him what he meant by "economic growth" in the bill. We heard from all our witnesses that gross domestic product is not a good measure of economic success, certainly not in the community wealth building sense. I asked him whether, in using the term "economic growth" in the bill, he meant an increase in GDP. He said that that was not necessarily what he intended. That is my question to you. If economic growth is not an increase in GDP, what is it?

Kate Forbes: I think that GDP remains a useful indicator of economic growth, but I do not think that it is the only indicator, largely because it is measured on a national basis. The whole point of

community wealth building is that we want to understand the drivers of local prosperity. We want to know that, where a particular local community is thriving, that is having an obvious social impact. That is what Mr McKee was probably getting at, although I did not see the exchange. GDP remains useful but, on a community level, a number of metrics can be used. Mr McKee is driving the bill, so he will be doing the consultation, but there are a number of useful metrics for unemployment, economic inactivity and poverty, and those are massive indicators of economic prosperity. There will be statistics in and around the number of businesses, and I imagine that each of those local businesses will contribute to more local infrastructure development.

There are a lot of metrics and I assume that, as part of the community wealth building consultation process and the bill process, there will be a lot of discussions about how we measure the wealth that we want communities to build through that bill.

Lorna Slater: That is absolutely the case, Deputy First Minister. The reason why I am asking this is that I had some of the same challenges around NSET, with that focus on growth. As you say, it is not all about GDP. When we talk in the media about growth, it is about GDP, but you are saying that, in this instance, it is more about prosperity, unemployment and other measures.

Would it be better and clearer to say that we are looking at economic prosperity or economic success, rather than that very narrow measure of economic growth? I know that people use growth as a synonym for success, but it is not a synonym, and it is unclear what metrics we will be using. There is an implication that GDP is the only metric, which you have just said is not your intention.

Kate Forbes: I always think that there are two perspectives on economic success. There is the perspective that, if we just pick a couple of big winners, that drives national GDP growth, which looks really good but hides all the social challenges, such as the communities feeling left behind and the disenfranchisement. The other perspective is the ground-up approach, through which we want to ensure that all parts of Scotland are economically prosperous, which, inevitably, drives GDP growth.

GDP growth remains a useful indicator, but, if we are not comparing it with the other statistics at our disposal, we do not know whether it is just masking a lack of economic prosperity in communities. We have seen that in the past, when communities got left behind but the national figures still looked okay. The national figures would have been a lot better if we had not left communities behind, so I do not think that it is an either/or situation—it is a both/and situation.

Those that focus only on national GDP figures, to the exclusion of other figures, do themselves a disservice. Those that look only at the local figures, without understanding how they are driving the national figures, also do themselves a disservice.

Lorna Slater: My final question on that theme is this: how does the NSET enable a wellbeing economy, rather than simply the pursuit of GDP to, as you say, the potential detriment of the local economy?

Kate Forbes: I will ask Aidan Grisewood to speak to the metrics. We have metrics on that.

Aidan Grisewood: In relation to specific metrics and the NSET, there is a commitment to having an annual report showing the balances of metrics across the piece, including on income inequality, regional inequality, emissions, the natural capital index—which is developing over time but which speaks to what you were saying about making sure that natural assets are covered—GDP growth and, linked to that, income tax receipts. That balanced, overall metric set is at the heart of the NSET and we still report on it annually.

As the Deputy First Minister said, different parts of the NSET achieve not only one of those aims but multiple aims. There is on-going work to make sure that we can properly measure the impact of what we are doing. There are various impact assessments that enable that to work, and there will be specific examples of those in the NSET report. That enables us to make sure that the breadth of impacts is covered and that it reflects the national indicators, as well as the specific indicators such as growth and gross value added.

Murdo Fraser (Mid Scotland and Fife) (Con): There are three things that I would like to ask about, all of which arise from evidence that the committee has taken in the past couple of weeks.

I will start by asking about support for businesses in the defence sector. As you know, defence is a key strength of the Scottish economy; it is one in which we have seen a lot of good news recently in terms of winning international orders; and it is an area in which the opportunity for growth is substantial because of the international situation and the fact that, across the western world, countries are increasing defence expenditure. In an area in which we have expertise, knowledge and experience, we can do much better.

The Scottish Government has dropped the previous policy about not funding munitions—I will not ask you about that, because it is past history. A new policy is in place in relation to not supporting companies that might have a connection with exports to Israel. I asked Scottish Enterprise about that when it came to the

committee on 17 September. Its answers were not particularly clear about where that policy sits. In response to my questions, Adrian Gillespie said:

"We are working through the implications of the changes that have been made recently ... We need to work through which companies are affected by that."—[Official Report, *Economy and Fair Work Committee*, 17 September 2025; c 7.]

Can you be clear about what exactly the Scottish Government policy is and what the practical impact of that is in terms of support from public bodies such as Scottish Enterprise and Skills Development Scotland?

Kate Forbes: I will happily do that. I assume that the enterprise agencies were also fulsome in expressing how much financial support they have given to defence companies in the past few years. If memory serves, Scottish Enterprise and Highlands and Islands Enterprise have given £45 million of financial support to companies in the defence sector.

The First Minister announced the policy a couple of weeks ago—it is only a few weeks ago; I do not know when you heard evidence from the enterprise agencies, but I imagine that it was quite soon after the announcement. The policy applies

"to new grants provided, or investments made, by Scottish Government",

Scottish Enterprise, Highlands and Islands Enterprise, South of Scotland Enterprise and the Scottish National Investment Bank. It applies to named countries, which are determined by ministers in reference to objective international legal processes—specifically, where the International Court of Justice has indicated provisional measures under the United Nations Convention on the Prevention and Punishment of the Crime of Genocide or where the International Criminal Court has issued arrest warrants for related acts. Currently, those countries are Myanmar and Israel.

The policy as defined above will apply only to companies whose products or services are provided to specific, identified countries, either directly or through known indirect relationships, such as distributors, intermediaries or broader supply chains. The policy does not apply to companies whose goods and services end up in those countries without their knowledge. It applies to the full global footprint of a defence company and all associated activities.

That is the technical detail of the policy.

Murdo Fraser: That is very helpful. Let me ask you to illustrate that with an example, if you can. You will be very familiar with Leonardo in Edinburgh, which is a very large defence contractor that supplies radar systems, including to Lockheed Martin. In the past, it has been

criticised because some of the Lockheed Martin planes end up in Israel. Does your policy mean that a company such as Leonardo could not be supported through the public bodies that you referred to?

Kate Forbes: There are two steps to take. First, the company must declare that, to the best of its knowledge, its products are not being used in such countries. It is a self-declaration process. Secondly, the enterprise agency must engage with the company to understand the full details. I will not give you the joy and delight of having me express a view in committee on a hypothetical application, because a very important process has to take place.

Colin Cook: As I said earlier, at an official level, I am the sponsor of our enterprise agencies. We currently work with them. Yesterday, I met Scottish Enterprise in order to go through some of the practical issues that have come up as it has worked through the policy on the ground. We are addressing those issues one by one, which is not unusual. We do so with any Government policy in order to ensure that the enterprise agencies understand the implications of a decision and that we take feedback on how it operates in practice. That process is on-going.

We are also in continual discussions with the defence industry. I attend the aerospace and defence industry leadership group. I understand that the Deputy First Minister is attending the group's meeting next week to have such discussions. We are having live discussions about the policy's practical implementation.

Murdo Fraser: That is very helpful. Thank you.

One issue that I explored with Scottish Enterprise was the complexity of supply chains. A lot of international exports are sourced from a variety of companies. I outlined the scenario for Leonardo, which is that some of its output might end up in Israel. Would the munitions policy also apply to subcontractors, such as companies that supply components or provide training facilities to staff? Would they also be impacted by the policy?

Kate Forbes: The policy does not apply to supply chain companies. Working for companies that have links to identified countries, where the subcontracted project is not intended for use in those countries, is not restricted. That is why it all comes back to the need for the company itself to declare that, to the best of its knowledge, Israel is not the intended destination.

Murdo Fraser: Thank you.

I have a second question, which arises from some of the evidence that we took last week from the Scottish National Investment Bank. I asked about a specific investment that it has made in

Gresham House, which is the largest commercial forester in the United Kingdom. I believe that it is now Scotland's second-largest landowner, so it is a very substantial enterprise. It has assets under management that are worth £8.7 billion, and its ambition is to grow that figure to £200 billion by 2030. The Scottish National Investment Bank has given it £50 million of public money to assist with the purchase of Todrig and Whitslade, which is an estate in the Borders. Why do we need to spend taxpayers' money supporting such a large organisation to purchase land?

Kate Forbes: The temptation for me to comment on that is quite significant, but the Scottish National Investment Bank is operationally independent. The moment that I start to pass comment on its commercial decisions, that independence is compromised. Given its independent position, it will make investments that members might think are great ideas and others that members might think are not such great ideas. The whole point is that the Scottish National Investment Bank is free from political interference, which is what makes it such an impactful investor. I do not want to compromise that.

We have very clearly set out the three missions that the bank is to focus on: pursuing a just transition to net zero carbon emissions by 2045, which might involve forestry; extending quality of opportunity by improving places—it is a place-based approach; and harnessing innovation to enable our people to flourish by 2040. By design, those are not prescriptive, so that, again, the bank knows that it operates within parameters but that it is free to make investment decisions independently of the Government.

10:30

Murdo Fraser: I asked that question because we were told by Willie Watt from SNIB that the bank had made the investment because it promoted biodiversity and there would be a higher percentage of non-commercial woodland on that site. Information that I have been given since then by our former colleague Andy Wightman suggests that that might not be the case, but perhaps the committee can follow that up directly with SNIB.

My last question is about the visitor levy, which is directly in your portfolio. The committee took evidence on that three weeks ago. There was a bit of to-ing and fro-ing, which you are very familiar with, in correspondence between the committee and Ivan McKee last week, and what was said was then contradicted. Can you tell us exactly where the Scottish Government is now in relation to potential changes to the visitor levy to allow councils the freedom to introduce a flat charge as opposed to a percentage charge?

Kate Forbes: I will answer the question, but I caveat all this by saying that I am recused from decisions on this matter because of an entry in the register of members' interests in relation to accommodation provision, through family members. I am intimately familiar with all the arguments about the visitor levy, as a Highland MSP. The Government's position is that, through engagement with local authorities and businesses, a number of points have been highlighted about the implementation of the levy.

If my memory serves me right, when the nature of the levy was consulted on, it was about 50:50 with regard to who was in favour of percentage rates and who was in favour of flat rates. Highland Council, for example, wanted neither—it wanted a tiered flat rate—and, in the past, the Scottish Tourism Alliance has publicly favoured a tiered flat rate. The Government has been open to exploring the implementation of changes that have been requested by local authorities and industry. The challenge is finding a legislative mechanism to do that, because time is very tight over the next six months.

There is an appetite—a willingness or a keenness—to find a route to offer local authorities the option of levying a flat rate rather than a percentage rate. The question is the means. There is quite a sensitive conversation around how to link that with housing, which is why I imagine that that did not happen through the Housing (Scotland) Bill. Generally, tourism businesses do not want to see the levy used for what they believe are statutory obligations on the state; they want to see the funding being used to improve visitor facilities. There is openness on the part of the Government and there are very active conversations happening with industry and local authorities to look at how we do that.

Murdo Fraser: I believe that amendments were lodged to the Housing (Scotland) Bill that the Presiding Officer decided were not in scope—

Kate Forbes: I think that one of your colleagues did that, too.

Murdo Fraser: That is absolutely correct. Those amendments were ruled out of scope. That bill might have been an opportunity to do something about this issue. I believe that five councils have now looked at the levy and decided not to proceed or to pause. I understand that, when Argyll and Bute Council met last week, one of the reasons that it decided to pause was the confusion. It did not want to take a decision until it knew where this would end up. In that case, would it be sensible to have a moratorium on any further decisions, given that we do not know what the options might be?

Kate Forbes: No, I do not think that it would be sensible to have a moratorium instituted by the

Government, because this has always been a local tax, so it is a matter for local authorities. I believe that the feedback to the consultation from the Convention of Scottish Local Authorities—again, I am going into the deep recesses of my mind—was that it did not come out unilaterally in favour of a flat rate. Some local authorities, such as the City of Edinburgh Council, are keen to make progress with the current arrangements, but others, such as Highland Council, want neither a flat rate nor a percentage rate—they want a tiered rate. In other words, I do not think that a moratorium from central Government is in the spirit or the letter of this policy or legislation.

Murdo Fraser: I have one more question on this subject. From today, businesses in Edinburgh have to charge the visitor levy for bookings into next year. An Edinburgh colleague of mine has passed to me a communication that they got from constituents who run a caravan park in the Lothians, who take their bookings through Booking.com. They have just been told by Booking.com that, although it can institute the visitor levy on top of bookings that are made, it cannot deal with the visitor levy being capped at five consecutive nights. If somebody books for seven or 14 nights, say, Booking.com has to apply the visitor levy on the total sum. It suggests that the business should then refund the balance to its guests on their departure. That is a bit of a boorach, is it not?

Kate Forbes: The legislation is extremely flexible. The point is that, under the legislation, local authorities must consult extensively with industry and, if they wish, introduce a scheme that is operational—in other words, one that can actually be implemented. On the basis of the communication that you refer to, I would assume that there is a point there that needs to be highlighted to local authorities about the way in which they charge the visitor levy.

For me, that is a question of operational implementation. Fundamentally it is a question for the City of Edinburgh Council, which should be consulting with industry as we speak to determine how to do it.

The Convener: Before we move on, I have a couple of brief supplementary questions relating to the defence questions that came up. First, I was wondering whether you could share with the committee the detail that you seem to be referencing regarding supply chain companies. It would be useful if we could get that in writing and on the record; that would be an important bit of clarification.

I also have a direct question. A number of companies are designated as sovereign capabilities, which involves robust Chinese walls and separation. I believe that Leonardo is

designated as such, as is Thales in Glasgow. Is that being taken into cognisance in how the policy is drawn up? Will those companies that are designated as sovereign capabilities be deemed as separate from their parent companies? That will have a significant bearing on how the policy will operate.

Kate Forbes: The policy will apply to the full global footprint of a defence company and all associated activities. If the specific Scottish part of the company has no links to an identified country, but another part of the company elsewhere in the world does, the Scottish part of the company becomes ineligible for the grants and investments.

The Convener: That is a useful clarification.

Kevin Stewart (Aberdeen Central) (SNP): Good morning, Deputy First Minister. You talked earlier about your £1.3 billion budget, which is not insignificant, but growing the economy is vital. I want to get an idea of how there is co-operation across Government in recognition of the importance of growing the economy, with a pooling of budgets and resources to make things a reality. Do you think that we are doing our best in that regard?

Kate Forbes: I think that we are doing a really good job, from an economic perspective. We bring all the functions of different parts of Government under one umbrella of team Scotland when it comes to economic decisions, and that creates a tried and tested approach to collaboration.

We could always do better, however. Committee members have quite rightly asked questions on gender data, climate change, productivity and different sectors. The challenge for us is always to remain as focused as possible and to prioritise the areas that we think will make the biggest impact.

In a political world, there is always something new to get excited about. In this role, I have tried to keep going back to our core objectives and focus on them. That makes it much easier to drive collaboration. For example, skills is one of the areas that businesses always want to talk to me about. We can always do more on skills but the skills and education sector will be dealing with other objectives, not just the ones that the businesses that I represent have.

Kevin Stewart: Some folk are going to think that my next question is a bit of a patsy one—a plant—because of your last answer.

I will give the example of something that happened this week: the opening of the energy transition skills hub in Aberdeen. That involved an investment of £4.5 million from the Scottish Government and leveraged in private sector funding from the likes of Shell. The hub is being run by North East Scotland College. It is all very

co-operative and vital for the future of the north-east economy and, I would argue, the whole of Scotland.

The money for that came from the just transition fund, which, I think, sits with the Cabinet Secretary for Climate Action and Energy. There is a huge input from the education portfolio on the skills aspect and there is the economic side. When decisions to invest in projects such as that energy transition skills hub are made, is there ministerial discussion about that and a strategic overview of how much bang we get for our buck?

Kate Forbes: To an extent. Obviously, the broader conversations all come back to what we have set out as our core objectives.

One of the three main objectives that I have on the attracting investment work is the energy transition. The issue that investors raise with me more than anything else is whether I can ensure that they will have the workforce. Therefore, skills underpin all the investment work. The investment work is exciting and I can talk about the statistics, but ultimately it becomes a reality only if we have the skills. Therefore the energy skills hub is an obvious, logical place to make the investment because it is so critical to all the other work that we are trying to do.

Every few months, I chair the Cabinet sub-group on investment in the economy—we had a meeting yesterday—so the matter is obviously of Cabinet-level importance. It is a brilliant place where we talk through all the big investment opportunities and what the implications are for every portfolio. Gillian Martin was there yesterday morning talking about the overlap between the investment approach and the climate change, energy transition and net zero approach that she takes. Fiona Hyslop was there talking about transport. Ben Macpherson is one of the members and he talks about skills. That brings it all together.

Kevin Stewart: The likes of that hub, led by North East Scotland College, is extremely important in ensuring that we have a workforce that is fit for the future. NESCol, of course, is one of the colleges that has adapted well over the years by providing the courses that are required to support an ever-changing workforce. How much work have you and other colleagues put into an audit of the kind of jobs that we will have in the future—I know that it is difficult—and the amount of people that we will need to staff up the sectors that we are talking about? Are colleges and other places doing enough to adapt and build the workforce for the future?

10:45

Kate Forbes: That also feels as though it could have been a planted question, because it is the

question that I was hoping somebody would ask me, and we have had no conversations prior to the meeting.

I have been commissioning the audit for the past few months. We are doing it on a regional basis. The committee might be interested in bringing Skills Development Scotland before it to go through the audit that it has just done, particularly for the energy transition in the north of Scotland. It focuses on the Highlands and Islands, I am afraid, but the model could be replicated for other regions.

What SDS has done means that it has incredibly granular data, because it started with the inward investors and businesses. Rather than just getting high-level figures from them, such as that they need more people or more engineers, SDS has asked them specifically how many engineers and what kind of engineers they need over the next 10 years. How many welders and what kind of welders?

As commissioned and supported by Highlands and Islands Enterprise, SDS has produced an industry-led data audit of the skills that are required. You heard it here first—I do not think that it is in the public domain yet. The next stage is to launch that audit with commitments from the colleges and universities on how they will support the delivery of every last one of the individuals that are required. We have done it.

I think that it is better to do it on a regional level, because we are more likely to want to be able to retrain people who live in the locality than to attract people in, and we will only attract people when we know that there is a shortage. That model could be replicated for other regions, but we have proved that it works.

Kevin Stewart: Does that industry-led audit also include the staffing requirements for the future of the public sector?

Kate Forbes: That is very interesting. I am not sure that it does. It is certainly broader than just the obvious industries. For example, it says if we need this many people for the energy transition, how many people do we need to build new houses? It looks much wider than the direct jobs at the indirect jobs, but I am not sure that it goes as far as the indirect jobs in the public sector, unless Aidan Grisewood tells me otherwise.

Aidan Grisewood: That is correct. The auditors focused on industry and inward investment opportunities, and the jobs that are required for those. However, other parallel work feeds in, such as detailed assessments of the requirements of the health workforce, for example. There are separate processes around all that.

I guess that the challenge is in how it all comes together and shows the total number of workers that we have, and there is something in there about the national skills planning approach and what we can do to make sure that, overall, we get the balance right across the piece.

Kevin Stewart: I am interested that you say that there is a parallel process with health. I recognise that the audit is a new thing, and that is all to the good. However, in some regards—you hit upon this yourself, Deputy First Minister—all that new investment and all those new skills that are required in the private sector, which are industry-led, will require a number of other things in a particular area, including an emphasis on the health workforce. We know that, in certain parts of the country, there are difficulties with the recruitment of certain health professionals. Rather than just having a parallel process, maybe you should refine the process and look at the entire thing in a holistic manner, including industry, private enterprise and the public sector.

Kate Forbes: What we have seen with this particular audit is that the public sector is very involved, which is encouraging. We will take that point on board.

Kevin Stewart: I have a final question on this, which is about the flexibility of colleges and universities to adapt courses.

As I said earlier, in some parts of the country, there has been much greater flexibility and the ability to change courses quite quickly to meet the workforce needs of the modern world. Has there been in-depth discussions with your education and skills colleagues—I realise that Ben Macpherson is just in post—around making all that much more flexible when, in some cases, the traditional mindset has been to not change anything? I will give you an example: some of the bricklaying courses that were on the go a few years ago did not really meet the modern build standards. Are we having those discussions? Will that change be driven forward?

Kate Forbes: Yes. I have had a lot of conversations about the big asks from the business industry with Ben Macpherson's predecessor, Graeme Dey, during the production of the workforce data audit, which I just talked about. I am looking forward to picking up those conversations with Ben Macpherson. So, yes, there is a big focus on flexibility. We have seen some evidence of it, for example, around the Clyde maritime cluster, where Glasgow College has been absolutely brilliant in supporting industry ambitions. However, it would be good to see that right across Scotland.

The Convener: The skills gap that Gordon MacDonald and I have identified during the preceding set of questions is our ability to lip-read.

I hand over to Gordon MacDonald.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Good morning. I have a few questions about artificial intelligence. First, the Scottish Government's forthcoming AI action plan builds on the AI strategy of 2021. What is taking place in that area at the moment? The committee will carry out an inquiry on AI, and it would be helpful to know when that action plan will be ready.

Kate Forbes: The AI Scotland programme is very new. I chaired the 2021 AI strategy group, which had a big focus on ethics, safety and security. The AI Scotland programme, which Richard Lochhead leads, is essentially focused on a pilot scheme for SMEs; it is all about positioning Scotland as a creator and supplier of AI technologies. It is fairly fresh and new, but we could certainly report back to the committee on it.

Colin Cook: I am happy to try to add to that. Although it is a new initiative, the Government recently established a technology council, which has representatives on it with a deep understanding of AI based on their commercial and university backgrounds in the area. They are helping us to shape that action plan. I think that it will take a few months to develop a plan that we could discuss with the committee, but I assure you that people are working on it.

The issue is that the field is moving so quickly that we need to have continuous improvement in what we do. However, there are parallels around the world: we are benchmarking against organisations or initiatives such as AI Singapore to get an understanding of what might make a difference and what role the public sector could play.

Gordon MacDonald: Eighty-eight per cent of SMEs think that, by investing in AI, they will improve their productivity, but those same companies are spending less on skills, as you mentioned earlier. If AI takes off in the way that people think that it will, there is the problem of job displacement, where retraining will be required. How do we get the balance right between investing in skills and investing in AI, which is needed to help with productivity?

Kate Forbes: The more we do in both areas, the better. If I reflect on anything in Scotland right now, it is that the scale of the growth that is planned or is under way exceeds the ability of the workforce to deliver it. In other words, as we speak, we do not have all the people that we need to meet the scale of the industry's ambitions, whether that is for the energy transition, what is happening in life sciences or what the construction

industry needs to do with regard to building houses. There is a question about how we continue to invest in retraining and upskilling to ensure that young people come through with the skills that they need.

Secondly, it is important to consider the size of the workforce, otherwise you end up recycling workers from one industry to another. That is a particularly big risk at a regional level—the national figures might say one thing, but it is a big challenge regionally. Such problems are born of high demand for workers because of growth, which is happening across the board, whether in the aerospace cluster in Prestwick, the north-east or elsewhere.

Investing in AI is not really a choice or a luxury; it is a question of keeping up with other people and competitors, because that is where other jurisdictions are going and have gone. We have to ensure that our SMEs are well equipped, which is where the AI Scotland programme comes in.

Gordon MacDonald: You have just indicated AI's importance. However, in order to harness its benefits, we need data centres to be based in Scotland. We have a cooler climate and an abundance of electricity. Recently, we had the announcement about DataVita and CoreWeave, but how do we use that to encourage other companies to put down roots and locate data centres in Scotland?

Kate Forbes: We are doing that by taking a very streamlined approach to attracting developments and investments. An obvious example of that is the work that we have done through the investment pipeline, where we have provided a tangible prospectus on where investors can invest in Scotland, and data centres are one obvious such area.

We see evidence that that approach is working. There are some challenges along the way. The high price of energy represents a risk, but all the reasons that you identified—such as the fact that we have a cooler climate and will have access to a surplus of green energy—are of interest as well. Those factors are all driving quite high levels of interest in data centres in Scotland.

Gordon MacDonald: My final question follows on from an earlier question from Stephen Kerr, who painted a pretty black picture of Scotland's productivity figures. Am I right to say that, of the 12 UK regions, Scotland is in the top three for productivity levels, that Scotland's average growth over the past decade has been more than double that of the UK and that Edinburgh's productivity levels are nearly 25 per cent higher than the UK average?

Kate Forbes: The member has put that all on the record, and I am happy to be reminded of those wonderful statistics.

The Convener: I want to ask some questions on that, because the issue is really important. The issue here is context, because there are always different ways to look at data.

I note two specific things about NSET's productivity measures. First, the progress report uses 2023 data, but the 2024 data was published only one day after the report's publication. Is there an issue with the sequencing of data, and can we use the most up-to-date data?

The report uses nominal data and quotes an increase in productivity from £40.50 GVA per hour worked to £42.50 GVA per hour worked. That is described as an increase, but in real terms it is a decrease of 1.5 per cent. Do we need to think about how we use data, ensure that we use the most up-to-date data and provide greater context?

Kate Forbes: The semi-author of the NSET report is sitting beside me, so he can answer.

Aidan Grisewood: There is always a challenge with any report in that another figure inevitably comes out on the day of or shortly after publication, which means that it is not as up to date as it could be, but thanks for flagging it. The productivity figures should be looked at, as has been reflected in the committee's interest in the report and its criticality to what we are trying to achieve. Next year, we will consider publication timescales and lots of other factors.

11:00

On reflection, we should have explicitly said that the figures are nominal, which I suppose is implicit. You have flagged that, and we can take that point away. I think that I am right in saying that the real growth over the period that we have talked about has been positive, but I will take away your point, given that we are trying to achieve real terms productivity increases.

The Convener: Given the centrality of productivity, it strikes me that, for the sake of a day, the report's publication date could be looked at.

I recognise that the numbers cover a 20-year period, but you might have seen the article in the *Financial Times* in June that focused on London's productivity over the past four years. I will fully declare that it is based on Office for National Statistics data and, unfortunately, its regional breakdowns take some time to come through, so it only covers 2019 to 2023. The article focused on the fact that London's productivity decreased in that period, but it also very clearly showed that Scotland's labour productivity growth was fourth

from bottom, at 0.25 per cent, narrowly ahead of Wales, the West Midlands and London but behind the north-west, which led the pack with almost 2.5 per cent growth.

The point is that, yes, you can look at a longer period, but more recently, the regional comparisons appear to show some issues with Scotland's productivity. First, do you recognise that? Secondly, to come back to the point about context, should we look more closely at Scotland's productivity growth compared to that of other regions and nations of the UK?

Kate Forbes: The questions around productivity are fascinating because of the way in which, over the 20-year period, Scotland quite definitively closed the gap in relation to the UK average for productivity levels. In 2019, Scotland's real output per hour was £34.60 compared to £35.40 in the UK as a whole, and we outperformed all UK regions between 1999 and 2019. Earlier, I talked about how real output per hour grew by an average rate of 1.52 per cent per annum over that period.

However, the more recent period has been challenging, and plenty of Scottish Government reports go into some detail about that. The chief economist's October 2024 report went into some detail about the succession of shocks to our economy, such as the pandemic, high inflation and significant volatility in some of the short-term indicators. In 2023, productivity fell by 1.1 per cent compared to 2022, but it grew by 4.6 per cent in the previous year.

It is important to get into the figures, but it does not compensate for actually understanding what drives productivity growth, which—as I outlined to Stephen Kerr—include business investment, investment in digital and investment in skills, and we are seeing significant outcomes from those investments that we need to keep supporting.

The Convener: I do not disagree with that, but can I press you a little bit on that point? I must fully declare that I am slightly obsessed with the regional breakdowns, because they raise the question whether things are going on in other places that we could and should learn from.

There are some reasons not to talk about Manchester, given what has happened in recent days, but there are lessons to be drawn from what they are doing there. Should the Scottish Government use some of those comparisons—with Manchester, Northern Ireland or Wales—for both positive and negative insights?

Kate Forbes: We have talked about that issue before, and I think what sets Manchester out is strong leadership and a cohesive approach to delivering results. That is perfectly possible in Scotland, and I see evidence of that in different

parts of Scotland. There is one example that stands out most starkly. Forgive me—I obviously have an element of prejudice in this regard, but I have never seen people in the Highlands and Islands working together as cohesively as they do now, or with such strong leadership. That is largely born of the fact that Highlands and Islands Enterprise is a little bit independent and can show that strong leadership. There are brilliantly strong leaders right now in all the key public bodies. There is a sense among industry that something exciting is happening, and those leaders are working collaboratively together. None of the most recent investments happened accidentally; they were pursued quite intelligently. That is what stands out.

The Manchester example is fascinating, but it is not a model for rural areas. I would argue that the Highlands and Islands is showing what kind of approach could work in a rural area, which is exciting.

The Convener: I agree with that, but the point was not so much about the structures per se as about the data points and the comparisons.

Stephen Kerr wants to ask a supplementary question.

Stephen Kerr: I want to make it absolutely clear to you and the committee that I am not trying to paint a black picture of anything. I am trying to talk about our ambition for Scotland, which I hope we all agree on. We want to improve our productivity, and I think that we all share the belief that productivity is a key driver.

I make the point that it is all right to do the relative measurements to compare the nations or regions of the United Kingdom, but, in fact, the UK is a very bad example of productivity.

The Convener: It is.

Stephen Kerr: That is why—I want to hear the Deputy First Minister's response to this—what the convener said was important when he spoke about looking at things that are going on in other places, particularly in other countries and continents, to see what we can learn. A bit more ambition from us all in respect of our national productivity would not go amiss. I am sure that the Deputy First Minister would agree with that.

Kate Forbes: Absolutely, and I will quote a University of Glasgow study from December 2021 that reflects on Scotland's productivity performance as a story of

“puzzles and apparent contradictions, with strength in some areas but below average performance elsewhere.”

Stephen Kerr: That is right.

Kate Forbes: The report then goes through what those high productivity sectors are. I talked

about the big beasts and the high productivity sectors in energy and finance. We have world-leading universities, so the skills element is good, but, as the University of Glasgow's report says,

"The business ecosystem in Scotland lacks a critical mass of large scale-ups."

Cue Techscaler. The report mentions good progress on export performance and, going further, support for business start-ups. That is a little insight into really solid strengths in some areas. It goes back to Lorna Slater's point, which is that if you just take the high-level data, the regional or the industry variation underneath is masked.

Stephen Kerr: There have been a number of excellent reports that explore these paradoxes, but we in Scotland are not unique in that respect, hence the importance of our looking further afield and taking those lessons. Some of those lessons will be quite uncomfortable about the nature and structure of our economy, and how we perhaps have to be prepared to rearrange those structures to help us become more prosperous. I am sure that you agree with some of that.

Kate Forbes: Not to go back to my pet subject of the Highlands and Islands, but Graeme Roy did an interesting report on the Highland economy over the past 60 years, looking largely at the progress since the time of the Highlands and Islands Development Board, when the generally accepted wisdom was that the Highlands was such a basket case that the only thing that could be done to improve the region was to encourage people to leave rather than to encourage investment in it. I think that the economist Professor Sir Donald MacKay made that point. Graeme Roy's point is that productivity growth in the Highlands and Islands has often exceeded what was happening Scotland-wide, and that the region was able to weather some economic storms better because of its resilience.

There is a lot to learn not only by looking outward but perhaps by looking inward at particular regions of Scotland in which there has been significant growth over the past 60 years.

The Convener: With that, I think that the Economy and Fair Work Committee is demonstrating excellent productivity by dealing with our agenda ahead of schedule.

Kate Forbes: I hope that that extends to ministers as well.

The Convener: I genuinely think that, in broad terms, we can all agree on the point about wanting to be more ambitious for Scotland and to be clear eyed about where the opportunities for improvement are.

I thank the cabinet secretary, Colin Cook and Aidan Grisewood for their contributions this morning.

We move into private session.

11:11

Meeting continued in private until 11:12.

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