

ECONOMY AND FAIR WORK COMMITTEE

25th Meeting, 2022 (Session 6), Wednesday 9 November 2022 Inquiry into Scotland's Supply Chain

Introduction

1. The purpose of today's evidence session is to consider the Scottish Government's response to the Committee's report and discuss with the Minister, in more detail, the issues raised.

The Committee's report

2. The Committee [published its report](#) on 28 April 2022 and it is attached at **Annexe A**.

3. Ivan McKee MSP, Minister for Business, Trade, Tourism & Enterprise [responded to the Committee's report](#) on 4 July 2022. A copy of the Minister's response can be found at **Annexe B**.

Witnesses

4. The Committee will hear from—

- Ivan McKee MSP, Minister for Business, Trade, Tourism and Enterprise;
- David Barnes, Deputy Director, Trade Policy Division;
- Graeme Cook, Deputy Director, Procurement Services;
- Carron Flockhart, Unit Head, Skills Planning and Sector Engagement and
- Dermot Rhatigan, Deputy Director, Manufacturing and Industries Division.

Clerk to the Committee
4 November 2022



The Scottish Parliament
Pàrlamaid na h-Alba

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Economy and Fair Work Committee

Scotland's Supply Chain



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Economy and Fair Work Committee

To consider and report on matters relating to the economy falling within the responsibility of the Cabinet Secretary for Finance and the Economy.



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Introduction

1. The Committee decided to look at how Scotland's supply chains could be developed, as widespread disruptions continue to be reported across the UK and globally. These included shortages of materials and some foodstuffs, extended delivery times, higher prices and labour and skill shortages across key sectors, coupled with peaks in demand.
2. Some of these difficulties can be attributed to the Covid-19 pandemic (the pandemic) and the UK's exit from the EU, both of which can undoubtedly place significant strains on Scotland's supply chains. However, issues affecting supply chains are multi-faceted and can shift rapidly. Many of the problems experienced in Autumn 2021, such as the continued use of emergency procedures for lorry drivers to deal with congestions around the major Channel ports, persisted as the Committee's inquiry progressed. There were already established labour and skills shortages in some sectors but these have been exacerbated by the additional impact of EU exit and the pandemic.
3. However, since the conclusion of the Committee's evidence gathering, the Russian invasion of Ukraine occurred on 24 February 2022. This has the potential to significantly disrupt Scotland's supply chains.
4. It is anticipated that the international security issues in Ukraine will have far-reaching and potentially long-lasting effects on agriculture supply chains. Given the importance of agriculture products from both Ukraine and Russia to the global economy, this poses an immediate risk to domestic food production and food security and is expected to result in price increases for both producers and consumers.
5. This event further highlights the significance of supply chains to the economy, the impact that disruption, unforeseen or otherwise, can have on them and the importance of building resilience to counter this. They also show that Scotland's supply chains are closely integrated with those of the rest of the UK and globally.
6. The Committee notes that storms, severe winter weather and unpredictable events also present significant challenges to supply chains. Other unexpected events, such as the disruption to P&O ferry services, following its announcement on 15 March 2022 that it was dismissing 800 of its British crew, caused difficulties.
7. At the start of the inquiry, the Committee held a preliminary session with representatives from the retail and construction sectors, the industry body for HGV drivers and Scotland's ports to gather information on some of the immediate issues. Its call for views received [40 responses](#) and it held oral evidence sessions from September 2021 through January 2022. The Committee thanks all who contributed to this inquiry.
8. In October 2021, the UK Government appointed a supply chain adviser to chair a newly established Supply Chain Advisory Group. The same month the Committee issued an invitation to the UK Government Minister with responsibility for supply chains to contribute to its inquiry. The Committee received no substantive response, other than an email from the Minister's office advising he was unable to appear and not best placed to give evidence. This was a disappointment and the Committee

considers it unhelpful that attendance by an alternative UK Government Minister was not offered. Given the importance of supply chain links and interdependencies across the UK, the Committee is of the view that it would have been helpful to discuss and understand actions being taken by the UK Government in the areas for which it has responsibility.

9. The 2020 Programme for Government set out a commitment to establish a Supply Chains Development Programme (SCDP).¹ The Scottish Government's intention is that this overarching programme will bring together supply chain development work across key sectors of the economy, where it identifies genuine sustainable economic potential. Whilst the availability of information on this programme is limited, it is understood the key objectives are to:
- take the learning from the experience of working on PPE during the COVID pandemic;
 - use public sector procurement as a catalyst for supply chain development in areas of strategic interest;
 - bring together the strengths of our economic development agencies - Highlands and Islands Enterprise, South of Scotland Enterprise, Scottish Enterprise and Scottish Development International – as well as the National Manufacturing Institute Scotland and other key agencies;
 - target existing and prospective suppliers based in Scotland, to enhance their fitness to compete for public contracts;
 - help to secure best value for taxpayers and help Scottish suppliers to grow and compete globally; and
 - contribute to delivering the National Mission for Jobs.
10. The Scottish Government published "Scotland's National Strategy for Economic Transformation" (NSET) on 1 March 2022.² The Committee took evidence on the Strategy from the Cabinet Secretary for Finance and the Economy ("the Cabinet Secretary") on 16 March. The Strategy sets out high level action to develop supply chains. It states that it will—
- ” Expand our Supply Chain Development Programme to improve the capacity, capability and development of Scottish supply chains. This will include maximising the manufacture of high-value goods and equipment in Scotland and identifying Scottish companies with the skills, capacity and capability to bid for, win and deliver contracts in our key industries and provide access to enterprise and innovation support that specialises in these areas. We will work with recipients of major government-led funding to leave a legacy of stronger supply chains in Scotland.³
11. This report considers some of the interdependencies and actions required to help Scotland's supply chain develop, withstand future challenges and build resilience. The Committee looked at issues from three angles; people, places and product to help it consider how shifts in supply chains are impacting Scotland's economy. It was keen to explore where future resilience could be built and the opportunities identified to allow Scottish businesses to develop sustainable domestic and

international supply chains.

People

12. In evidence to the inquiry, the distinct challenges of labour shortages and skills gaps and shortages were identified as two of the most significant contributing factors to supply chain problems.
13. Skills Development Scotland (SDS), Scotland's national skills body, describes skills gaps as occurring when employers consider staff not to be fully proficient at their job and skills shortages when there are too few candidates with the skills needed to match demand. SDS describes labour shortages as a lack of candidates overall, either as a result of workforce demographics, high levels of economic inactivity or increased out-migration or reduced in-migration. ⁴

Labour shortages

14. Scotland already had an ageing population, declining working age population and, compared to the rest of the UK, a lower birth rate. Scotland faces several demographic challenges, not least reducing availability of a working age population, a shift of population from the west to the east of Scotland, and a distinctively long term projected decline in population in comparison to some other parts of the UK and EU countries.
15. The latest figures from the National Records of Scotland (NRS) published in January 2022 show that the population of Scotland is projected to continue increasing until around mid-2028, peaking at 5.48 million and is then projected to fall by 1.8% to 5.39 million by 2045. ⁵
16. These figures also indicate that the population of the UK as a whole is projected to grow by 5.8% to mid-2045. These latest projections suggest that Scotland is the only UK country where the population is projected to fall during the next 25 years and, if realised, Scotland's share of the UK population would fall from 8.1% in mid-2020 to 7.6% by mid-2045. The NRS analysis also states—

” Scotland's population is projected to age. The number of people aged 65 and over is projected to grow by nearly a third by mid-2045. The number of children is projected to fall by over a fifth. The working age population is projected to remain fairly stable... As now, more people are projected to move to Scotland than leave each year. There are more deaths than births each year, and the gap between births and deaths is projected to widen. Over time, this will outweigh the growth from migration. ⁵
17. The reduction in international freedom of movement in the working age population following the UK's exit from the EU, coupled with the pandemic, appears to have reduced the numbers of people coming to Scotland for work and caused others who were here to leave. According to the Federation of Small Businesses (FSB), Scottish small firms are second only to those in London in terms of reliance on workers from the European Economic Area (EEA) and 40% of Scottish small firms employed at least one EEA worker, compared to 26% across the UK. ⁶
18. Skills Development Scotland pointed to research showing that around 20 per cent

of Scottish businesses reported hard fill vacancies due to reduced numbers of EU applicants at the end October 2021; the highest proportion was for businesses in Administration and Support Services, Accommodation and Food Services and Manufacturing and around 42 per cent of Accommodation and Food Services businesses reported a decrease of EU workers compared with normal expectations for the end of September.⁷

19. Martin Reid, director for Scotland and Northern Ireland for the Road Haulage Association (RHA), said that even before the changes to EU free movement, there was a shortfall of up to 60,000 drivers in the UK. Following the UK's exit from the EU, of the 15,000 EU nationals working as drivers in the UK, some had returned home with no intention of coming back and for others it was now more difficult to return to the UK. The Committee recognises that the general shortage of HGV drivers is not limited to the UK and that similar pressures exist in EU countries.
20. The transport and logistics sector has an ageing workforce and is facing difficulties in attracting newer and younger recruits. For example, Mr Reid pointed out that only 2 per cent of HGV drivers are under 25 and terms and conditions are not seen as particularly attractive for younger people.
21. A particular factor in being able to attract new and younger people to the sector, is how HGV drivers are treated. Mr Reid urged—

” We as an industry and the wider industry that we deliver to must examine ourselves. We also need Government help in a number of areas. We lag far behind the rest of Europe on welfare facilities in the network and safe and secure overnight parking.⁸
22. In 2021, there was increasing demand for drivers, rising pay and people seeking to move into the sector. However, due to the pandemic, the DVLA was unable to provide tests at its usual levels. According to the RHA, around 40,000 HGV driver tests were cancelled, exacerbating the shortage.⁹
23. Since then, the UK Government has taken several actions designed to alleviate some of the challenges being faced by the HGV sector. These included relaxing drivers' hours rules from 12 July 2021 to 10 February 2022 to allow short-term extra flexibility for the industry; allowing up to 4,700 HGV drivers to be added to the existing visa scheme to help food industries with driver shortages; allowing up to 300 extra fuel drivers to come to the UK between 1 October and 15 October 2021 and to continue to work in the UK until 31 March 2022; and extending cabotage rights for foreign hauliers in the UK to 30 April 2022 to make their trips more efficient.
24. It is not clear to the Committee how successful or otherwise these various UK Government initiatives have been. However, it notes that in evidence to the House of Commons Environment, Food and Rural Affairs Committee in December 2021, Kevin Foster MP, Minister for Safe and Legal Migration in the Home Office, indicated that, at that time, only around 200 HGV drivers had taken advantage of the 4,700 temporary visas that were available.¹⁰
25. Other action taken by the UK Government included investment to provide support and training for new HGV drivers; expanding HGV driver testing capacity and

improving licencing processes; and activity to encourage existing HGV licence holders not driving professionally to consider returning to HGV driving.

26. Economic measures were also implemented at UK level to support the haulage industry, with vehicle excise duty for HGVs being frozen until 2023 and the HGV road user levy being suspended until August 2023. The UK Government also took action which applied to England only, such as a review of HGV parking and facilities. which was accompanied by an investment of £32.5 million in roadside facilities for HGV drivers, such as showers, toilets and eating areas. ¹¹
27. The Committee notes that the Scottish Government's recently published [Strategic Transport Projects Review](#) (STPR2) contains a recommendation to develop a strategy for Improving rest and welfare facilities for HGV drivers, recognising that "provision of these to an appropriate standard are...fundamental to ensuring safe, efficient and effective supply chains". ¹²
28. The Committee heard that Forth Ports were in discussions with the Scottish Government about establishing a simulator centre that could potentially assist with HGV training. Both Martin Reid and Charles Hammond, Forth Ports, called for Governments to champion transport and logistics as good career choices. Charles Hammond said—

” [transport and logistics] can be a rewarding long-term career, but it is not seen as aspirational or attractive at the moment. We need to fix that in the long term. ⁸

29. While drivers were the headline labour shortage, Logistics UK also pointed to a shortage of mechanics, technicians, warehouse operatives and van and forklift drivers.

30. The Committee recognises the need for much more to be done to improve the attractiveness of jobs and careers in the transport and logistics sectors. It welcomes the Scottish Government's proposal in STPR2 to develop a strategy for improving rest and welfare facilities for HGV drivers in Scotland. However, the Scottish Government is asked to set out what other actions it is taking within its own responsibilities to seek to address such matters and what discussions it has had with the UK Government on these.

31. The Committee also requests an update from the UK Government on the outcomes from the various actions it has taken to alleviate some of the challenges being faced by the HGV sector, such as relaxing working restrictions, relaxing visa requirements and extending cabotage rights. In particular, the Committee would welcome information on whether any of the time-limited actions have been or are likely to be extended further.

32. Coinciding with the UK's exit from the EU reducing the pool of available workers, the pandemic led to a rise in economic inactivity. Chris Brodie, SDS, told the Committee that data from the 2020/21 Annual Population Survey (APS) showed 826,700 economically inactive people in Scotland (57.4% female and 42.6% male, the majority from the 50-64 age group but with the largest increase in the 16-24 age group). ¹³

33. In supplementary written evidence, SDS pointed out that the APS data shows that there was an increase in the number of people who were not working in Scotland due to being students, with numbers increasing by 15.8 per cent (+29,200) in the period July 2020-June 2021 compared to pre-pandemic levels (July 2018-June 2019). SDS also stated that the APS data showed that 18.9% of the 826,700 economically inactive people in Scotland said they would like a job but were not looking for one, because either they believed there were no jobs available, or they were not in a position to take one. From the 18.9% (156,600) who said they wanted a job, the top four reasons for economic inactivity were 'long term sick' (31.5 %), 'other'ⁱ (23.5 %), 'looking after family/home' (19.4 %) and 'student' (17.4 %).⁷

34. The Minister for Business, Trade, Tourism and Enterprise ("the Minister") put the economically inactive figure lower, at around 750,000, accounting for 22% of Scotland's working age population. He said—

” That proportion is broadly similar in the rest of the UK. If we delve into that, we find that there are a number of reasons for it. Some are valid reasons. People may be in education, have childcare responsibilities or be in poor health, and there are other reasons.¹⁴

35. The Committee notes that there are also longstanding inequalities in Scotland's labour market. Older workers, particularly women, are at higher risk of becoming economically inactive and labour market prospects for people with a disability and black and minority ethnic groups have not shown improvement. There is also an acute demographic challenge for Scotland's rural and island communities with due to increased competition for young people but less availability.

36. The Minister emphasised the effect on Scotland's labour market of the UK no longer being part of the EU—

” I say without a doubt that Brexit has made a huge difference. Covid restrictions are subsiding and international travel is opening up again; we would, in normal times, expect the labour market to open up. However, Brexit has stopped that.¹⁴

37. Immigration is reserved to Westminster. In Session 5, the Scottish Parliament's Culture, Tourism, Europe and External Affairs Committee carried out work to explore how the UK's immigration policy might best respond to Scotland's demographic and skills needs. The issue has also been discussed on a regular basis by the Parliament as a whole. When giving evidence to the Committee, the Minister indicated that the Scottish Government is consistently asking the UK Government for greater flexibilities in bringing in labour from abroad and to devolving immigration powers to help address shortages in certain sectors. He said—

” Countries including Australia and Canada use a degree of devolution of immigration powers—it is a model that works perfectly well, so there is no reason not to do it.¹⁴

ⁱ Other - includes people waiting the results of a job application, have not yet started looking for work, do not need / want employment, gave an uncategorised reason, or did not given a reason.

38. UKHospitality Scotland,¹⁵ the Scottish Chambers of Commerce¹⁶ and the National Farmers Union Scotland¹⁷ all called for the Scottish Government's support in reforming the UK Government's shortage occupation list. The Committee agrees that immigration is an important factor in resolving sectoral labour shortages.
39. Whilst immigration from countries outside the UK is a reserved matter there are, nevertheless, actions that the Scottish Government can take to promote immigration to Scotland from the rest of the UK. Scotland has net inward immigration from the rest of the UK. The Minister said there was a programme underway to better promote that message. He added—
- ” I think that there will be increasing focus on that programme because it is one of the few levers that the Scottish Government can pull in this area, given that we do not have control over international immigration powers.¹⁴

40. The Scottish Government is asked to set out what action it is taking to work with the UK Government to ensure greater flexibility around the occupational shortage list and temporary visas for certain sectors.

41. The Committee also calls on the UK Government to engage fully with the Scottish Government to consider how pragmatic, proportionate and achievable solutions can be identified and implemented to help ease the labour shortages in key sectors across Scotland.

42. Following the conclusion of the Committee's inquiry, the Scottish Government published its 10-year national strategy for economic transformation. The Committee notes the focus within that on growing Scotland's labour supply and addressing economic inactivity. The Scottish Government is asked to set out a clear delivery plan with milestones for progress on both counts.

Upskilling and re-skilling

43. Two other key people-related problems in the supply chain highlighted to the Committee are Scotland's skills gaps and skills shortages.
44. In addition, the Committee heard from Professor Melanie Simms of the University of Glasgow that there are skills mismatches; the skills held by workforces within particular sectors or occupations, do not necessarily match what employers want and need. She said—
- ” Employers' organisations and employers consistently tell me that there are gaps, but those are often mismatches—at the aggregate level, we have the wrong people in the wrong places, rather than the wrong skills.¹⁸
45. An Institute for Public Policy Research (IPPR) study of 2018 suggested 46% of jobs in Scotland had a high automation potential.¹⁹ Automation will not necessarily lead

to a loss of jobs as different jobs and new opportunities will emerge. The nature of work and the skills required now and for Scotland's future workforce are rapidly changing. The two main drivers are the transition to net zero and technological advances. For some sectors, particularly retail, the pandemic hastened changes. The increase in online shopping and reduction in physical shop-front presence changed the nature of many retail jobs on offer and the skills needed for them. The Committee will consider this further as part of its recently launched inquiry into town centres and retail.

46. The transition to net zero requires Scotland's workforce, particularly in carbon-intensive industries such as the oil and gas sectors, to pivot towards new technologies and ways of working. The Construction Industry Training Board (CITB) found that 22,500 new construction jobs would be needed. These would be a mixture of retraining and new roles, mainly involved in delivering the improvements required to existing buildings to reduce energy demand.²⁰
47. The [Climate Emergency Skills Action Plan 2020-2025](#) launched jointly by the Scottish Government and SDS, aims to achieve climate change milestones whilst ensuring a fair recovery from the pandemic.²¹ Following on, the Programme for Government²² included pledges to—
 - Implement a skills guarantee for north sea workers to upskill, reskill and transition to green jobs.
 - Invest £500 million to support new, good and green jobs of the future.
 - Invest a further £70 million in the young person's guarantee to deliver at least 24,000 new and enhanced opportunities to work, train or volunteer.
 - Invest £100m over this parliament to increase the digital capacity and capacity of business.
 - Lay the groundwork for a flexible skills and education system that can meet the needs of net zero while addressing existing inequality in the labour market
 - Continue to implement the recommendations from the Logan review.
48. In August 2021, the Scottish Government announced that SDS would deliver a [Green Jobs Workforce Academy](#), an advice service to access information, advice and skills to prepare for the transition to net zero.²³
49. In March 2022, the Scottish Government published its [Shared Outcomes Framework](#) for the work of SDS and the Scottish Funding Council (SFC), detailing "collaborative projects that contribute to delivery of overarching skills outcomes".²⁴ The Framework is the means by which SDS and the SFC will monitor and report on these projects and it is set in the context of NSET and the Future Skills Action Plan, in particular around the alignment of economic demand with current and future provision.

50. **The Committee notes the cluttered landscape of policy commitments, funding streams and other initiatives that are intended to ensure Scotland's**

workforce is equipped to make the transition to net zero. It has previously asked the Scottish Government to provide a clear roadmap for businesses, particularly smaller businesses, backed by practical support and non-loan-based funding to drive the necessary and sustained efforts needed to transition to net zeroⁱⁱ. The Committee calls on the Scottish Government to set out a clear roadmap for how it intends to ensure skills are developed, maintained and retained.

51. The other main driver for change is technological advances. Professor Mark Logan told the Committee that Scotland's digital skills shortage is growing, and whilst it is clear what skills are required, they are not being supplied. He acknowledged the upper limit of Scotland's small population but added—
- ” ...despite that context we are doing a bad job of supplying the numbers that we could. That is throttling our ability to grow the industry in the modern economy, which, from my perspective, is an area of particular concern.¹⁸
52. Professor Logan called for improvements in the way children and young people are educated in computer science and related subjects, better access paths to the sector for those who want to retrain and move into the sector and more workers to be attracted back to Scotland, for example by a talent attraction visa.
53. On progress to implement the Logan review recommendations, the Minister said this was ongoing and that he was keen for the Government to be more agile, responsive and able to execute initiatives but explained—
- ” There are dozens of aspects to that across the education system. Some of that, such as doing more computer science teaching in schools, is obviously going to take time because of the resource in terms of teachers that are able to deliver those courses.¹⁴
54. The Scottish Government did make a specific measurable commitment to—
- ” establish a national network of “Tech Scalers” – world-class start-up incubators delivering the best available mentoring and training for our company founders. We aim to have five operational scalers by end 2021/22 and aim to create between 300-500 high-quality new start-ups over 5 years.¹⁴
55. The Committee supports the view expressed by both Professor Logan and Paul Hunter, University of Glasgow, who are among those calling for young people to be equipped with adaptable and flexible skills to ensure they are more agile and better prepared to deal with an increasing rate of change in skills being sought by employers.
56. The Committee received evidence commenting on the effectiveness of some aspects Scotland's apprenticeship programmes. Richard McClelland, Qualifications for Industry, suggested some had not changed “in 10 or 20 years.”¹³ Marie Hendry, of the Open University (OU), called for more flexibility in apprenticeships, citing

ii [Letter from the Convener to the Cabinet Secretary for Finance and Economy on Pre-Budget Scrutiny 2022-23, 4 November 2021](#)

inequality of access for many people, such as those with caring responsibilities, or those who go on maternity or sick leave who are then not able to continue their programme. She said—

” That situation is starting to impact on the equalities aspect of apprenticeships, because we are starting to see more men than women taking them. We would like to work with SDS on that, and we are starting to have some conversations about the model with SDS and the SFC. ¹³

57. The Scottish Retail Consortium said there was little access to skills spending in Scotland and highlighted issues with the operation of the UK Government's Apprenticeship Levy. It said large retailers operating multiple sites make a significant contribution through the Levy, but do not necessarily see any benefit. ²⁵
58. Similarly, in written evidence the Union of Shop, Distributive and Allied Workers (USDAW) said the lack of investment in training is a problem and called for the Scottish Government to recognise the limits of the Flexible Worker Development Fund and the fundamental issues with the Apprenticeship Levy. ²⁶
59. Responding to this criticism, SDS said a “heavy programme” of work is underway looking at apprenticeships and standards. ¹³

60. The Committee calls on the Scottish Government to confirm that the work that is underway to review apprenticeships includes consideration of the concerns raised about the Apprenticeship Levy and the Flexible Workforce Development Fund. The Scottish Government is also asked to confirm the expected timescale for completion of this work.

61. The Committee heard from some stakeholders that access to and parity of funding for people further on in their working lives who want to retrain or gain additional qualifications must also be reviewed. Part-time learners do not have access to the same funding as full-time students. Marie Hendry, OU, said the only option was the part-time fee grant, not available to anyone earning more than £25,000. She referenced the Scottish Funding Council review recommendation—
- ” a learning allowance that people could use throughout their life, rather than people having one chance to get a degree. That would make a huge difference to people's ability to transition from career to career. ¹³
62. Questions were also raised around whether Scotland's approach to workforce development is well enough aligned and integrated with what employers need now and in future. Paul Hunter, University of Glasgow, highlighted the approach in the Netherlands to connect employers with skills providers on economic boards. ¹⁸
63. Professor Melanie Sims said Scotland, in common with the rest of the UK, has a poor record in providing in-work training. She told the Committee that in any one year only around a quarter of workers receive any in-work training, in stark contrast with many of our competitors. ¹⁸
64. Paul Little, Colleges Scotland co-author of the [One Tertiary System: Agile](#),

[Collaborative, Inclusive Report](#) emphasised the need for a “whole system aligned approach” and a focus on lifelong learning. He called for more to be done to implement his report’s recommendations. He highlighted the importance of the college sector in mobilising the economically inactive. He also noted the numbers of older workers and older adults taking part in higher education and highlighted the agility of Scotland’s colleges, saying—

” during the pandemic, we have worked to upskill and reskill some 10,000 employees through the flexible workforce development fund. We have developed 125 digital courses on which individuals can be fast tracked. ¹⁸

65. Marie Hendry, OU, told the Committee that more needs to be done to identify the existing skills people have and what transferable skills they need to develop to allow them to more easily transition between different job roles. She suggested that more collaboration and coordination between stakeholders was required to achieve this. She said—

” We need to work closely with industry. We all need to get better, systematically, at joining up industry, education and people such as those in Skills Development Scotland, to ask what is coming down the line, what industry is telling us, and how we can get training out to people in order to transition them before the skills gap hits. ¹³

66. In January 2022, shortly before the Committee's final evidence session on the inquiry with the Minister, the Auditor General for Scotland (AGS) published his [Planning for Skills Report](#). The Auditor General was critical of the way skills services are delivered, saying that SDS and the SFC had not been able to agree how integrated approaches to skills planning should work and that current arrangements are unlikely to achieve the Scottish Government's ambitions for skills alignment. The AGS report found that the Scottish Government has not provided the leadership needed to achieve the intended benefits from joint working in skills planning and provision. ²⁷

67. The Committee had not had an opportunity to consider the Auditor General's report before taking evidence from the Minister, however it asked him for his response to its findings. The Minister agreed that a closer alignment between the skills system and businesses was needed, explaining—

” ...we are spending more than £1 billion to support the skills system and an extra £500 million on top of that over the course of the session of Parliament to focus on that issue. I talk to businesses every day and skills is the number 1 issue, notwithstanding everything else that is going on. ¹⁴

68. **The Committee heard in evidence how important it is to have thorough, collaborative planning for future skills requirements to ensure the right skills are available to meet the needs of employers and that people can obtain transferable skills to help them transition to new roles to address skills gaps. It notes that the Scottish Government's newly introduced Shared Outcomes Framework may help to address some of these skills alignment issues.**

69. **However, the Committee notes with concern the report by the AGS which calls on the Scottish Government to take urgent action to ensure progress is made in improving how workforce skills are planned and provided. The Committee calls on the Scottish Government to provide full details of how it intends to respond to the recommendations in the AGS report in order to reach its own objectives on skills alignment.**

70. **As the Committee would expect, one of the key elements of the recently announced national strategy for economic transformation is Scotland's skills development. The Committee is of the view that the success or otherwise of the strategy will be measured through effective and achievable delivery plans. The Committee therefore calls on the Scottish Government to set out clear delivery plans and timeframes for achieving the strategy's aims to tackle Scotland's skills gaps, shortages and mismatches.**

71. **The Committee welcomes the renewed focus on developing Scotland's digital capabilities. However, it recommends that accelerated measurable action should be taken to ensure necessary progress.**

72. **The Committee considers it essential therefore that work is taken forward to address the digital skills shortage and prevent the digital skills gap in Scotland from growing. In this regard, it calls on the Scottish Government to provide full details of progress being made towards the implementation of the Logan review recommendations. This should set out work that is already being undertaken and that which is planned. The Scottish Government is also asked to provide an update on the establishment of the "Tech Scalars" network.¹**

Places

73. The second theme of the Committee's inquiry is based around "places". Members explored issues including transport links across Scotland and with the rest of the UK, Scotland's ports and other connectivity hubs, and modal shift in carrying freight to understand how Scotland's supply chain could be made more resilient. In addition to the written evidence that the Committee received, formal evidence sessions were held on 24 November 2021 with the British Ports Association, DFDS, Rail Freight Group, the British International Freight Association, and Professor Kiran Jude Fernandes of Durham University, and on 1 December 2021 with the Scottish Retail Consortium (SRC), the Scottish Grocers Federation and the Scottish Wholesale Association (SWA).

Global context

74. During its inquiry, the Committee heard that there had been two significant contributions to the global supply chain disruption; the Covid-19 pandemic and Brexit. As mentioned earlier in this report, the outbreak of hostilities in the Ukraine added a further and hugely significant disruption to global supply chains.
75. The British Ports Association (BPA) noted that the global policy response to Covid-19 introduced significant global imbalances in the maritime sector due to the different timings of lockdown and reopening of economies. Initially, the lockdowns in key Asian economies caused a significant drop in production of certain goods . While some Asian economies reopened, European economies were being locked down which led to a significant increase in demand for storage, and delays in unloading shipping and vessels returning. The British International Freight Association (BIFA) noted that Brexit had also caused issues with European trade, stating that—
- ” Since 1992, it [*trade between the UK and Europe*] has basically been a transport operation between us and Europe. Now, it is a freight-forwarding logistics operation, which includes regulatory checks. It might be an odd thing to say, but the whole nature of the transaction has changed because of that. ²⁸
76. In November 2021 the BPA noted that these global imbalances and increased tariff barriers were exacerbated by the HGV driver shortage—
- ” Those challenges, alongside things such as haulier shortages and one or two other pressures, have balled up or combined to create a perfect storm that has hit our sector in a tough way. The forecasts are now that, for another year at least, the congestion and issues could stabilise or could dramatically increase at short notice. Recently, the Suez canal blockage [*March 2021*] exacerbated the problem. It is a sensitive market that will take time to settle. ²⁸
77. BIFA noted that the view within the industry in Autumn 2021 was that it would take somewhere between 18 to 30 months for the global supply chain imbalances to be fully resolved. BIFA also noted that developments in different stages of the global supply chains were not always working as well together as possible. For example, shipping lines are building larger vessels with a significantly greater capacity, but

this creates issues for port operators and other third parties who need to deal with greater peaks of activity, as well as ensuring that the infrastructure can accommodate the larger vessels.²⁸ The Scottish Wholesale Association also touched on this issue, noting that it was difficult for their smaller members to meet the minimum requirements for orders that suppliers are starting to demand in the face of the increased cost and demand in logistics. This pressure is felt disproportionately by smaller wholesalers, and could lead to consolidations in the market.²⁵

78. The full extent of events in Ukraine and the major disruption this will cause has still to become apparent, but it is likely to be far-reaching and represents a further unwelcome challenge to already fragile and sensitive supply chains.

Improvements to the existing transport network

79. Witnesses highlighted several areas where there was scope to improve the existing transport infrastructure in Scotland. Logistics UK note that 90% of Scotland's freight is transported by road, so investment in the road network is key.²⁹ The A96 and A82 were highlighted by several respondents. Logistics UK note that the road network has been under-invested in since 2008²⁹, while Dr Karen Fryer describes the A83/A82 as not fit for purpose.³⁰ Several witnesses called for improvements to the key transport links to existing international freight hubs, largely in the south of England but also to the port at Cairnryan. The SRC suggest that further investment in the A1 is essential to improve links to the wider UK market.²⁵
80. Logistics UK highlighted that the relatively poor facilities for HGV drivers on the road network, including secure parking facilities, were one of the barriers to recruiting to the sector. The recently published STPR2 makes recommendations in a number of areas where witnesses have called for improvements. Key recommendations in STPR2 which address some of the issues raised during the committee's inquiry include:
- Ferry vessel renewal and replacement and progressive decarbonisation (recommendation 24)
 - Scottish Government brings together public and private sector organisations to develop a net zero freight and logistics network for Scotland that would encourage the switch to more sustainable and efficient freight transport (recommendation 27)
 - Improving rest and welfare facilities for HGV drivers (recommendation 36)
 - Safety, resilience and reliability improvements to be made to the A75 and A77 (recommendation 40)
 - Potential Sound of Harris/Sound of Barra fixed links and fixed link between Mull and Scottish mainland (recommendation 41)
 - Investment in port infrastructure to support vessel renewal and replacement and progressive decarbonisation (recommendation 42)

- Transport Scotland to work with partners to carry out an updated market study for rail freight growth in Scotland (recommendation 44)

However, this strategy was published after the Committee had concluded its evidence gathering and it was therefore not able to question those who gave evidence to the inquiry on its recommendations.¹²

81. Some witnesses also highlighted the possibility of encouraging a modal shift in freight from road to rail and sea. Several called for the Scottish Government to explore the promotion of a direct ferry link to Europe. The Minister mentioned that this was an area of consideration in his evidence to the Committee, but raised concern that a Scottish port might not have sufficient demand to make a regular ferry service viable.
82. STPR2 also includes commitments to explore which routes offer the greatest potential to shift freight from road to rail. However, the Committee heard from witnesses that the current infrastructure does not allow for products to be transported quickly enough via rail to the south coast of England – a particularly challenge for fresh product exports. DFDS noted that they explored sending product by rail from Mossend to Tilbury, but this would have taken one and a half days which is three times as long as required for perishable good exports.²⁸
83. The Committee heard from witnesses that any plans to encourage a modal shift would not only have to look at the opportunity in Scotland, but to consider the available infrastructure in the markets for these goods. The BPA noted that improved rail links to Stranraer and Cairnryan might be of limited value as there is currently no rail link on the Northern Irish side of this route.²⁸
84. The BPA also noted that driving goods from the south coast hubs to Scotland was the cheaper and simpler option, despite the recent increases in fuel and driver costs. The Committee notes that since this evidence session (which was held in November 2021) there has been a further and considerable increase in the cost of fuel, with average prices for unleaded and diesel up by 12% and 19% respectively according to UK Government dataⁱⁱⁱ. This price increase will have an impact on the relative economic benefit of different modes of transport.
85. Several individual respondents highlighted that there were no direct ferry links to Europe, and that these should be encouraged to bypass busy hubs. Kerr Dunvegan suggested that direct links to Zeebrugge and Bilbao could present an opportunity.³¹ However, Logistics UK suggest that Scotland is too far north to be a major port of call, and that the focus should be improving links to the hubs in the south (Heathrow for air freight, Felixstowe, London Gateway and Southampton for seaborne freight).²⁹ The BPA noted that there was potentially an opportunity in Orkney for a transshipment hub to take advantage of the northern route to Asian markets.²⁸
86. The Scottish Wholesale Association noted that the pressures on HGV driver recruitment can also be alleviated by reducing demand for drivers, and mentioned work with the Road Haulage Association to better integrate freight carried by lorries,

ⁱⁱⁱ Weekly road fuel prices as of 4 April 2022, Department of Business, Energy and Industry Strategy: <https://www.gov.uk/government/statistics/weekly-road-fuel-prices>

rail and promote local distribution hubs.²⁵

87. **The Committee notes that the Scottish Government and Transport Scotland have recently published the second Strategic Transport Projects Review which includes several projects which aim to tackle some of the challenges raised during this enquiry. The Committee recognises that this is a strategic document, but urges the Scottish Government and Transport Scotland to prioritise engagement with industry and other stakeholders in determining the priority of these projects, and make firm commitments on the capacity increases to be delivered and the timeline for delivery to ensure that industry are ready to take advantage of the benefits of this public investment.**

Rail freight

88. There have been two previous parliamentary inquiries which considered freight transport in Scotland, which raised many of the same issues the Committee heard in this inquiry. In 2006 [the Local Government and Transport Committee conducted an inquiry into 'Freight Transport in Scotland'](#) and noted that—
- ” The Committee believes that there is good potential to develop rail freight services, particularly with increasing congestion on the English road network, higher fuel prices and the liberalisation of the European rail freight market.³²
89. In 2015 the [Infrastructure and Capital Investment Committee also conducted an inquiry into 'Freight transport in Scotland'](#). The [2015 inquiry report](#) noted—
- ” The Committee heard in evidence that modal shift to achieve environmental benefit is difficult due to the inherent structure of the industry (e.g. short distances, need for interchange, need for primary and secondary distribution and part loads). As a consequence, there is a limit to how much freight can be shifted from road to other modes, as reflected in the relatively stable modal split statistics. In the meantime, decarbonising road freight should remain an ongoing priority, as discussed in the road freight section.³³
90. The Scottish Government published its [Rail Freight Strategy for Scotland](#) in 2016. This included key objectives of placing the rail freight industry onto a sustainable footing and working alongside the industry to identify new markets and areas for growth.³⁴ More recently, Network Rail launched an [Industry Growth Plan for Rail Freight](#) to grow the amount of freight on the rail network in Scotland by 2024.³⁵ This was in response to a target of 7.5% growth in rail freight that was set by the Scottish Government in the [High Level Output Specification](#), published in March 2018, which sets out the funding available for the railway between 2019 and 2024.³⁶
91. The Committee heard from several witnesses that shifting more freight from road to railways would have environmental benefits, as well as helping to ease pressures on driver numbers and congested road routes. The Rail Freight Group (RFG) noted

that on average freight transported by rail generated just one third of the carbon compared to road, and that this falls to just 10% on electrified lines. However, while many ports already have access to rail links, there would need to be an increase in the capacity of the rail network in order to take advantage of this. The RFG noted that—

” Across the whole UK, having the right rail links into ports is crucial. Most of the major or large ports have rail links, which is good, and there has been a lot of investment in infrastructure, including at Grangemouth. We need to make sure that the network has the capacity to provide extra trains. That is also true for trains to and from Scotland over the border. Investment in the rail network is sometimes required to provide extra capacity.²⁸

92. **The Committee notes that Transport Scotland has recently published the Strategic Transport Projects Review, which includes projects that aim to increase the capacity on the rail network for freight and further electrification of Scotland's railways. It also notes Network Rail's plan to increase the amount of freight on the network by 7.5% by 2024. However, the Committee notes that despite broad agreement amongst stakeholders that increasing rail freight will deliver environmental and economic benefits, coupled with recommendations for action from parliamentary committees over a period of several years, progress has been extremely limited. The Committee therefore recommends that the Scottish Government and Transport Scotland further explores with industry how a modal shift towards rail freight can be driven forward in Scotland, and seek to engage with the UK Government to increase capacity on the key links to major distribution hubs in the south.**

Scotland's ports

93. Several witnesses in written submissions highlighted the potential for investment in Scotland's ports in order to prepare for the opportunities that the transition to net zero will represent. The Royal Society of Edinburgh (RSE) noted in particular the development of deep-water ports of the east and west coast.³⁷
94. The BPA noted that ports across the UK are largely self-financing, even the publicly owned ones. The BPA also suggested that rather than significant investments such as the proposed direct road link between Scotland and Northern Ireland, public investment could be better utilised to improve the connectivity of ports around the country, highlighting that spending on roads by local authorities across the UK has fallen behind competitor markets—

” Scotland and the UK have a pretty good network of motorways and trunk roads, notwithstanding the frustrations that we all experience at peak times, with congestion and so on. However, we do not necessarily have efficient and streamlined last-mile connection to strategic rail hubs, freight tunnels and, of course, sea ports.

...If we compare where we are with the major economies in Europe such as France and Germany, we spend far less per head of population on [local] road infrastructure.²⁸

95. The BPA also highlighted that unlike other forms of transport, ports do not tend to access public support as they are in the main private businesses or operated as trusts and can use long term finance options for machinery. This presents a particular challenge for the transition to net zero, particularly for machinery which is powered by diesel. The BPA highlighted this challenge in their evidence—

” In essence, it is important to factor in the fact that freight is quite a sensitive and long-term industry. It is self-financing, as I said earlier. Unlike other forms of transport, such as public passenger transport, rail and some areas of aviation, we do not get support from Government; we have to do things by ourselves. When, for example, there are good aspirations from Governments to reach net zero by 2045 or even sooner, the industry, which is built on a long-term commercial structure, has to adjust.²⁸

96. The Committee recommends that the Scottish Government works with the owners and operators of Scotland's ports to explore the viability of upgrading them to ensure that they are ready to take advantage of the significant opportunities that the transition to a net zero economy will offer, and leverage the £700m in income from the Scotwind auction round to support the necessary investment.

97. The Committee recommends that the Scottish Government should focus the £700m income from the Scotwind auction to support the development of supply chains in the renewable energy sector and the new technologies necessary to deliver a just transition.

Green freeports

98. For a period when the Committee was gathering evidence, talks between the UK Government and the Scottish Government on free port / green port proposals had broken down. In his evidence to the Committee, the Minister indicated that talks had resumed. Since then, agreement between the Scottish and UK Governments has been reached to establish two Green Freeports in Scotland. The bidding process opened in March 2022, with applicants being asked to set out how they will regenerate the area, create high quality jobs and support the transition to net zero by 2045. This agreement was reached after the Committee concluded its evidence-gathering and so has not been considered.

99. In a news release announcing the agreement with the UK Government on the establishment of two Green Freeports in Scotland, the Cabinet Secretary indicated that the initiative would support the Scottish Government's commitment to a just transition to net-zero. She said—

” We can only seize Scotland’s economic potential if we create secure, sustainable and satisfying jobs that also help build a fairer, more prosperous economy for everyone. That is my absolute priority and establishing Green Freeports will be integral to achieving this. ³⁸

100. However, during evidence gathering the Committee heard some concerns about the proposed policy. The BPA noted that the proposed number of ports (8 in England, and 1 or 2 in Scotland) was unnecessarily restrictive—

” The advent of the free ports policy has broadly been welcomed as a useful tool and concept. It represents more than the traditional free port, which was about easing customs and tariff regimes. The UK Government’s model, of which we have eight locations, spans into enterprise stimulus, planning rules and employment taxes as well as the customs functions and easements.

The free ports proposal is not a direct solution for a lot of the new bureaucratic controls that, as Robert Windsor well articulated, are coming in as a result of the UK’s departure from the single market and customs union, although some assistance will be provided if needed for certain operations. It is more an economic development strategy. ²⁸

101. In written evidence, Unite cautioned that green port proposals need to deliver for workers and the local area, not simply the business owners. ³⁹

102. The Committee welcomes the announcement that the Scottish and UK Government have reached an agreement of the free ports / green ports policy proposals.^{iv} The Committee recommends that that the Scottish Government work with the industry and unions to ensure that the proposals for two green freeports address the concerns the Committee has heard about introducing competitive advantage to the industry and ensuring that workers benefit from these developments.

Just in time / just in case stockpiling

103. The Committee recognises the impact of supply chain pressures on retailers and wholesalers, and found that the impact differed on smaller and larger firms. The SRC noted that their larger organisations were responding to the pressure on supply chains by reducing the product range and increasing the number of suppliers, but that retailers were not typically having to dramatically increase stocks any more than they would have otherwise. The SWA also mentioned that increasing the use of regional distribution hubs would allow members to better pool resources for storage and distribution, and also make it easier for smaller, independent

^{iv} Maggie Chapman dissented.

suppliers to access larger markets.

104. However, the SWA noted that its smaller members had normally maintained around 4 weeks of stock, but that this had increased to around 10 weeks. This puts considerable pressure on wholesalers in terms of storage space and also products losing more shelf life while in the warehouse.²⁵
105. The Scottish Grocers Federation noted that its members would struggle to increase stock levels due to the lack of available space. In recent years convenience stores have faced stiff competition and as a result must maximise every metre of selling space in their stores, and therefore rely on the wholesale sector to cope with the increased stockpiling.²⁵

106. **The Committee recommends that the Scottish Government works with the Scottish Wholesale Association with a view to supporting an increase in the use of regional distribution centres which could reduce the demand for HGV drivers and encourage shifts to more sustainable transport methods, as well as improving competitiveness of smaller wholesalers and increase market access for smaller suppliers.**

The transition to net zero

107. Looking beyond the immediate pressures on supply chains, the Committee heard evidence of the challenges that the transition to a net zero economy would present. The BPA noted that ports tend to rely on large, expensive machinery which use diesel, but are paid up on finance over a long period and this presented the industry with some challenges in relation to making the transition. Transitioning equipment like this to renewable technologies presents a challenge. BPA also highlighted that the transition would rely on access to renewable electricity, which is not available on the scale required at all locations.
108. DFDS noted that Shetland has many opportunities through the transition to net zero, but, as an archipelago community, would require some support. Improved inter island links, both ferries and physical links, as well as improved energy infrastructure would be critical to allow the islands to take advantage of its natural resources and support the transition.
109. The BIFA noted that their membership is comprised of typically smaller companies of less than 20 people, operating in a market with relatively low margins. In this context the industry would benefit from support through clear understanding of new requirements so that firms have time to prepare, and public support with the necessary infrastructure including electric vehicle charging points.²⁸
110. The SRC noted that the retail sector is aiming to get their logistics operations to net zero by 2035, and that the main challenge in achieving this is changing the vehicle fleet. Policy makers could support this transition through encouraging the growth of the charging point network, ensuring that the chargers are universal and fast charging to help make low carbon modes of transport a viable alternative. The SRC also mentioned that there was scope to reform the VAT on electric vehicles and

offer capital incentives to encourage this transition.²⁵

111. **The Committee has heard from several witnesses that greater certainty is required in terms of the support that will be available for the transition to net zero and the specific solutions and technologies that the Scottish Government will promote so that industry can prepare for and make the transition in time to meet the climate goals.**
112. **The Committee considers that more incentives are required to encourage the modal shift to electric vehicles such as making significant improvements to charging infrastructure to provide confidence to logistics operators or through fiscal incentives at a UK level, such as a reduction in VAT levels for such vehicles.**

Products

113. The third theme of the Committee's inquiry was "products". Members explored the short and medium-term challenges in access to markets for raw materials, the emerging markets for Scottish products, opportunities to develop a domestic supply chain, and how businesses can be supported to win market share whilst also meeting fair work principles and other legislative requirements.
114. In addition to the written evidence the Committee received on this topic, formal evidence sessions were held on 8 December 2021 with the Scottish Building Federation, Construction Scotland Innovation Centre, Logan Energy and Cartmore Building Supplies; and on 15 December with the National Manufacturing Institute Scotland, the Lightweight Manufacturing Centre, and Scottish Enterprise.

Raw material shortages

115. Much of the raw materials used in Scotland's construction and manufacturing industries is imported, either from the rest of the UK or overseas. The combined impact of the lack of capacity in ports, the slowing down of production in Europe and China due to COVID-19 and a substantial rise in shipping costs has led to problems in the construction supply chain over the past two years.
116. [In written evidence, CITB stated](#) that the most common materials in short supply were timber (29%), followed by steel (25%), concrete products (19%), insulation materials (12%), cement (11%), plaster (8%), paint (8%), and electrical equipment (8%). In 2021, 39% of construction employers in Scotland reported that access to materials was one of their key challenges, compared with just 1% in 2019.²⁰ Gordon Banks of Cartmore Building Supplies told the Committee—
- ” Over the past 18 to 20 months, the situation has been absolutely dire; I cannot stress how difficult that period has been in the construction industry.⁴⁰
117. Scottish Enterprise told the Committee that businesses “cannot enjoy how busy they are”, that the demand from consumers is there, but the raw materials needed to complete work simply are not.⁴¹
118. A recent [Federation of Master Builders](#) survey found that 89% of local builders reported having to delay jobs due to a lack of materials or skilled tradespeople and 97% of builders reported “skyrocketing” material prices.⁴² Stephen Kemp of the Scottish Building Federation told us—
- ” Our programme has been led by the need to negotiate prices and delivery dates ... I used to just place an order and get what I wanted when I wanted it. Now, we have to work around the supply chain.⁴⁰
119. Evidence provided indicated that that the construction sector is becoming supply rather than demand-led. Housebuilding was cited as a specific example where the demand for affordable housing has remained constant but due to supply problems, the price of materials and cost of building has risen resulting in fewer affordable homes being built.

120. The Committee also heard that centralised production and distribution has created added pressure. Multiple suppliers in the same region have been acquired by large firms creating a supply monopoly with these large suppliers dictating the volume of products firms can access which can lead to artificial shortages and price increases. There was a feeling that supply chains in Scotland, and the wider UK, are too centralised and reliant on international markets. Gordon Banks of Cartmore Building Supplies commented—
- ” Centralisation is great if you benefit from it, but not great if you do not, which is the case in virtually every instance for the Scottish construction industry.⁴⁰
121. [Food and Drink Federation Scotland](#) pointed to the challenges faced by certain markets – e.g., seed potatoes which cannot be exported to the EU any longer under the Trade and Cooperation Agreement, or exports of live animals which face greater restrictions around transportation.⁴³ The [Scottish Retail Consortium](#) warn there is evidence of food price inflation for the first time in many years which is likely to be exacerbated once checks with the EU come into force next year.⁴⁴ As previously discussed, the situation in the Ukraine will also have a major impact on the availability of many food products, with a consequent impact on price.
122. The CITB highlight that the lack of medium-term certainty is a key barrier to the development of Scottish suppliers,²⁰ while Homes for Scotland note that the HGV driver shortage could be a medium-term issue if the underlying causes are not addressed.⁴⁵
123. The 2020 Programme for Government set out a commitment to establish a Supply Chains Development Programme (SCDP) with the aim of “improving the capacity, capability and development of Scottish supply chains”⁴⁶. Through this programme, the Scottish Government hopes to bring together economic development with public sector procurement, bringing together supply chain development work across key sectors of the economy. According to the Scottish Government, the SCDP will:
- take the learning from the experience of working on PPE during the COVID pandemic;
 - use public sector procurement as a catalyst for supply chain development in areas of strategic interest;
 - bring together the strengths of the economic development agencies - Highlands and Islands Enterprise, South of Scotland Enterprise, Scottish Enterprise and Scottish Development International – as well as the National Manufacturing Institute Scotland and other key agencies;
 - target existing and prospective suppliers based in Scotland, to enhance their fitness to compete for public contracts;
 - help to secure best value for taxpayers and help Scottish suppliers to grow and compete globally; and
 - contribute to delivering the National Mission for jobs.
124. During her evidence to the Committee on 16 March 2022 on the Scottish

Government's National Strategy for Economic Transformation, the Cabinet Secretary noted that the supply chain development programme—

” ...is about improving the capacity, capability and development of Scottish supply chains. It includes identifying and targeting Scottish companies that have the skills, capacity and capability to allow them to bid for, win and deliver contracts in key industries.

125. The Cabinet Secretary went on to state that the programme is about—

” ...identifying intentionally such businesses and working with them to improve their resilience. Some of them might already be operating within the key supply chains, but others might not be and should be building their business more.³

126. The Committee notes the problems that can arise due to a lack of local suppliers when shocks to the supply chain occur such as those felt during the pandemic, or those currently being experienced as a result of Russia's invasion of Ukraine. The Committee welcomes the establishment of the Scottish Government's Supply Chains Development Programme in 2020 and its aims for that, and requests an update on this programme, its implementation plan and timeframes for action.

127. When looking at raw material shortages, the Committee focused primarily on the construction and manufacturing industries. However, as has previously been noted, the Russian invasion of Ukraine has added significant additional pressure to supply chains around the world. In addition to oil and gas, wheat has been highlighted as one of the main raw materials affected, with Russia and Ukraine together accounting for around 30% of internationally traded wheat. As a raw material commonly imported, this is a concern.

128. NFU Scotland has noted that price rises resulting from a shortage of supply may have serious implications for food producers as well as consumers in Scotland. NFU Scotland has called for the Scottish Government to make more land available for food production to help make our food supply chain more sustainable and resilient.⁴⁷

129. The Committee notes that on 17 March 2021 the Scottish Government established the short-life Food Security and Supply Taskforce jointly with industry with a remit “to monitor, identify and respond to any potential disruption to food security and supply resulting from the impact of the war in Ukraine”. In the news release accompanying the announcement of the Taskforce, the Cabinet Secretary for Rural Affairs and Islands, Mairi Gougeon said—

” We need to take action now to better understand the potential impact of disruption to the food supply chain in Scotland, how industry and government might work together to manage and mitigate those, and be alert to the resulting impact on the cost of food products. Over the last two years, our food and drink sectors have experienced a series of shocks in terms of disrupted supply chains and new barriers to trade through COVID and Brexit. It is clear that the unfolding tragedy in Ukraine will have further impacts – not least through the hugely challenging increases in energy bills which affect households and everyone in the food industry, from farmers to hauliers, processors to retailers.

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130. **Food production was not an area considered during the inquiry, and falls within the remit of the Rural Affairs, Islands and Natural Environment Committee. However, the Committee acknowledges that the impact of the Ukraine crisis on Scotland's food supply is significant, and considers that steps should be taken to increase domestic production and identify alternative sources where possible to make Scotland more resilient in the face of current and future supply chain shocks. In this regard, it welcomes the creation of a short-life taskforce by the Scottish Government to work jointly with the relevant industry sectors to respond to and mitigate the impact of the series of supply chain shocks that have occurred in recent years.**

131. **The Committee draws this report to the attention of the Rural Affairs, Islands and Natural Environment Committee to be taken into account as part of any future work it may carry out in this area.**

Opportunities for Scottish Products

132. The view was expressed in evidence that Scotland is in an excellent position to develop a domestic supply chain in areas where there is sufficient demand and economies of scale. The benefits of this include; sustainable local jobs, the environmental benefits from a reduction in carbon miles, harnessing the skills base already in the country, and innovating new products that can be used both domestically and exported.
133. During the pandemic, we have seen many Scottish businesses innovate to develop a local supply of some essential products. One example of this noted by witnesses was Alpha Solway in Dumfries and Galloway. In the summer of 2020, Alpha Solway expanded its production and secured a multimillion pound contract to produce personal protective equipment (PPE) for the NHS, creating more than 200 jobs and minimising the need to import PPE products, as had been common practice before the pandemic.
134. In March of 2022, the company secured additional funding of £4.8 million from South of Scotland Enterprise (SOSE) allowing them to expand their operation with a

new state-of-the-art factory, along with an expansion of their current facility. SOSE stated that the intention behind this investment is to “secure a Scottish-owned base to manufacture PPE for Scotland, UK and international markets”.⁴⁹

135. Alpha Solway’s recent success has been cited as an excellent example of business, working with the public sector, to rebuild Scotland’s economy and create a more sustainable and resilient supply chain. Witnesses noted that bringing production back home would allow Scotland to have the ability to adapt to future shocks, as well as providing export opportunities. Stephen Kemp of the Scottish Building Federation noted that—

” it will take a generation, but the right direction for us to go in is to move towards a home-grown industry and, as far as possible, a complete supply chain that assembles and manufactures here, and which also exports. We need to set our sights higher than just dealing with the domestic market.⁴⁰

136. Bill Ireland of Logan Energy cautioned however that—

” We have to be realistic. Scotland has only 5.5 million or 6 million people, so we are relatively small and we cannot do everything. We need to focus on the things for which we have natural resources and skills.⁴⁰

137. [Highlands and Islands Enterprise](#) noted that North America, Europe and the UK are expected to remain the main destinations for Scottish exports, so any agreements to minimise the increase in trade friction, or even reduce it, will be welcome.⁵⁰

[Scottish Renewables](#)⁵¹ noted that wind, tidal and hydrogen energy are the key emerging markets where Scotland has access to the materials necessary. These industries could also support a significant domestic supply chain through operations and management opportunities, which in turn could be an export as oil and gas support services have been. [Kerr Dunvegan](#) suggested that direct links to Europe, including to Zeebrugge and Bilbao by sea, could allow Scottish firms to bypass often congested hubs.³¹ During his evidence to the Committee however, the Minister cautioned that the frequency of ferries that could potentially be offered from Scotland may not be a viable option for many firms—

” If someone can get goods on a truck to Dover, if there is a ferry every half an hour or whatever and if they can get another truck when they need one, they have flexibility ... At a Scottish port, there might be one ferry once a week, and if it does not go and people have to wait another week, they have a problem. The issues are multifaceted; it is not just about cost.¹⁴

138. During the inquiry, the Committee heard of three products where Scotland has an opportunity to develop a domestic supply that would benefit local economies and make our supply chain more resilient. One area that presents a particular opportunity for developing a stronger domestic supply chain is in the production of timber products. Witnesses noted that the number of sawmills in Scotland has reduced substantially since the 1970s and that most of the timber used in construction is imported.

139. [Scotland Exce|](#) stressed in its submission the importance of understanding what the barriers currently are to using a domestic supply of timber and suggested that industry needs clarity on how building regulations will evolve, that demand is

quantified, and that the issue of the trade-off between lower transportation costs against the felling of trees is addressed.⁵²

140. Stephen Kemp of the Scottish Building Federation noted that—

” If we developed our high-quality timber and consumed it locally, with there being a penalty for not using what is on our doorstep, people would be directed to the obvious solution, which is right at our fingertips. It comes down to economics and to Government driving that policy, looking at the detail and sensitively considering what the impact could be.⁴⁰

141. Plasterboard is one of the main materials used in the homebuilding sector, but the Committee heard of the significant shortage of plasterboard, as well as increasing costs. [Homes for Scotland highlighted](#) the lack of domestic production and suggest this could be an area where there is the necessary scale to support a Scottish supplier, provided certainty of future demand is clear. The environmental benefit of domestic production was also noted, given the significant carbon footprint of transporting large volumes of plasterboard via HGV.⁴⁵

142. As previously discussed, cement and other concrete products were cited as being in significantly short supply with one witness stating that during the past year “only 20-40% of cement needs were filled”.⁴⁰

143. Scotland is reliant on a single supplier for cement so this is an area where an increase of domestic production could prove beneficial, both for the Scottish and export markets. The Committee however noted the negative environmental impact of traditional cement and other concrete products, and that Scotland has an opportunity to lead the way in more environmentally friendly alternatives. These will be discussed in the following section.

144. The Committee agrees that opportunities exist to produce more products in Scotland for both local consumption and export, particularly in the building and construction sector and in key emerging markets, such as wind, tidal and hydrogen energy.

145. Given these opportunities, the Committee recommends that the Scottish Government lead by example and include carbon miles in its criteria for public building projects, to encourage more local production.

146. The Committee also calls on the Scottish Government to work with the enterprise agencies to do more to enable businesses to identify and enable such opportunities.

Innovation

147. The Committee heard, both in written and oral evidence, of the array of opportunities open to Scottish businesses through new and innovative raw materials.

148. As previously discussed, many of the traditional materials used in the construction industry are in short supply, with the practice of centralised distribution also having an impact. It is acknowledged that as a move is made towards a more sustainable net zero economy, that there are opportunities for Scotland in the development and promotion of more sustainable alternatives to those materials in short supply. Indeed, the committee heard that the current crisis presents Scotland with an opportunity to become world leaders in new and more sustainable technologies.
149. The highlighted products developed in Scotland included non-fired brick alternatives made from construction waste, carbon-friendly concrete substitutes, low-carbon cement substitutes, and carbon-capturing insulation products. The Committee heard that such Scotland-originated alternatives are readily available to the construction industry but are often not widely used to their full potential. The [Construction Scotland Innovation Centre stated that—](#)
- ” ...the main barrier remains a reluctance by clients/industry to adopt new, innovative solutions that have no significant track record, hence the solutions are often deployed only locally, often expensively and at a micro-scale. ⁵³
150. It was argued that overly prescriptive building regulations can lead to the over-use of traditional products in preference to sustainable alternatives. Witnesses argued for better (not more) regulation, that takes account of the advances in more sustainable materials.
151. The view was also expressed that Scotland has the opportunity now to become a leading manufacturer of these alternatives and even export globally, ultimately to the benefit of the Scottish economy—
- ” If we bring in the necessary expertise and alternatives, we become an exporter inherently, because we have got better products and other people are not doing it ... if we are doing it better and we have got a better supply chain, we can do it quicker, and we can sell that product around the world. The opportunity to do that is there. ⁴⁰
152. He went on to state that—
- ” We need to look to the future, and at what we can do now to re-educate and retrain people. We need to do that quickly, or we will lose out. ⁴⁰
153. The Scottish Government's recently published National Strategy for Economic Transformation acknowledges the potential to develop and become world leaders in innovative and more sustainable technologies, with the aim to "strengthen Scotland's position in new markets and industries, generating new, well-paid jobs from a just transition to net zero." ²
154. **Given there can be a reluctance to make use of new more sustainable building materials, the Committee recommends that the Scottish Government should make appropriate amendments to building regulations to incentivise the use of more sustainable alternatives.**
155. **The Committee recommends that the Scottish Government also lead by**

example and encourage the use of these sustainable locally produced alternatives via its procurement system, weighing bids on both the carbon miles of materials used, and whether the materials themselves are environmentally sustainable.

156. **The Committee agrees that the opportunities offered by the development of these new, innovative and more environmentally sustainable alternatives present an exciting opportunity for Scotland to become a world leader in the field. The Committee hopes that more Scottish businesses will embrace these opportunities and take advantage of the support available to do so, for example from the Construction Scotland Innovation Centre.**

157. **The Committee welcomes the inclusion of innovation with regards to more sustainable products and materials produced in Scotland in the Scottish Government's new economic strategy, and seeks assurances that this will include the raw materials used in the construction industry. The Committee awaits sight of the associated delivery plans.**

158. In June 2021 the Scottish Government published a [Manufacturing Recovery Plan](#). The plan, developed in conjunction with industry, brings together a range of partners across the public, private and academic sectors. The plan has [four priority areas](#) —

- Collaboration and networks – promoting collaboration across the sector in Scotland and beyond to maximise sales, particularly exports, and building networks to support the sharing of knowledge, ideas, capability and best practice.
- Supply chains and competitiveness – supporting businesses of all sizes to develop stronger and new supply chains and to access new opportunities.
- Adaptation and transformation – identifying transformative solutions that enable the sector to be more resilient, productive, digitally enabled, sustainable and competitive, and to become truly world-class.
- Skills and workforce – in line with Fair Work and Just Transition principles, enhancing workforce development to respond to the emergence of new technologies, whilst safeguarding and creating high-quality, green jobs.⁵⁴

Manufacturing Processes

159. As part of the “people” strand of the Committee’s inquiry, the Committee heard that one of the main obstacles in developing a resilient domestic supply chain in Scotland is the shortage of labour. Witnesses noted that in some areas there is a significant skills gap, where the demand for certain skills cannot be met locally and in many cases a skills mismatch, where those with the required skills are in a different part of the country. During the Committee’s evidence session focused on manufacturing, witnesses noted that the manufacturing sector has been hit

particularly hard with regards to access to labour.

160. The Committee heard that one way to tackle this issue is to make use of more innovative production methods, and embracing technological developments such as automation. Scottish Enterprise noted that—

” There is a compelling commercial case for automation, and there is an economic case in relation to the disruption to supply chains. There is a perfect storm but we can do something good for supply chains in Scotland. ⁴¹

161. Professor Keith Ridgway of the National Manufacturing Institute Scotland noted that there is a general impression that investing in automation is exorbitantly expensive, however that is no longer the case—

” ...there does not have to be a big spend to get a solution. Increasingly, our work is finding low-cost solutions to problems ... The solution is not necessarily to throw money at the issue. Innovation is about finding low-cost ways of doing something. ⁴¹

162. The Committee heard of the support available to businesses that want to modernise their manufacturing practices through the National Manufacturing Institute Scotland, Lightweight Manufacturing Centre, and Scottish Enterprise.

163. Nick Shields of Scottish Enterprise noted that—

” There are fantastic examples of businesses throughout Scotland that have adopted automation and there are examples of businesses that have not. It is our job to take the pain away and to introduce those technologies to them in an easy and user-friendly manner. ⁴¹

164. The Committee welcomes the work being undertaken as part of the Manufacturing Recovery Plan and notes the potential for the new and innovative products and systems being developed by Scottish firms. It notes the work done by the National Manufacturing Institute Scotland, Lightweight Manufacturing Centre, and Scottish Enterprise in assisting businesses to innovate in their production processes and encourages more businesses to consider this as a way to address current and future labour shortages, and to develop a sustainable and resilient supply chain.

Supporting businesses via public procurement

165. Some stakeholders were of the view that public procurement processes in Scotland are not sufficiently flexible and that the increasing prevalence of large contracts, for example the schools' investment programme, ⁴⁰ limits the ability of small and medium enterprises (SMEs) to bid for work. There was agreement that enabling SMEs to bid and be successful in winning more contracts is ultimately beneficial to public building projects, to utilise local specialist knowledge, help develop a strong local skills base and lead to more accountability.

166. Other evidence suggested that the public procurement process often seems to focus on lower cost, without adequately accounting for the longer-term community or environmental benefits.⁵⁵
167. Stephen Kemp spoke of how the prevalence of these large contracts awarded to large national companies, coupled with the focus on lower cost over other factors, has resulted in a migratory labour market, where the various aspects of projects are routinely subcontracted to firms around the UK based on cost, at the expense of local SMEs. Not only does this have a negative impact on local businesses, but there is also an environmental impact with workers travelling often great distances for jobs, and a loss of accountability as migratory workers have less of a stake in the community. He said—
- ” People come in, they do the job, they get paid, they walk away and they have no responsibility ... The problem is that it is all subcontracted labour. No one has responsibility, and there is no real accountability for those people, their skills or their development. It undermines the ability of the industry in Scotland to properly respond to big challenges, because it all comes down to paying the labour the bottom line and getting rid of them at the end of the day.⁴⁰
168. The Committee heard that current procurement processes often force lower margins and lower cost, leaving no slack in the system for investment or innovation. Prior to the start of this inquiry the Committee held several scene-setting evidence sessions with representatives of industry. In oral evidence to the Committee, Construction Scotland described the current situation with regards to public procurement as a “race to the bottom” where risk is passed from the public sector to the private sector, and the lowest cost prevails. It suggested that this has the effect of driving prices down and forcing a reliance on cheaper raw materials being sourced from abroad and stated—
- ” Ultimately, we are trying to drive the circular economy, but we are doing the complete opposite with the existing procurement regime.⁵⁶
169. [Civil Engineering Contractors Association Scotland](#) (CECA Scotland) stated that contractors are often asked to confirm their prices for framework contracts covering several years against a volatile market, making it particularly difficult for SMEs to remain competitive while protecting themselves from being locked into prices which are subsequently overtaken by inflation.⁵⁷
170. When the concerns about public procurement were put to the Minister for Business, Trade, Tourism and Enterprise, he highlighted that SMEs secure a larger share of public procurement work than their contribution to the wider economy—
- ” ...the percentage of public sector business that is won by SMEs in Scotland is far higher than that in the rest of the UK, and it is way in excess of the targets that are set by the European Union. SMEs in Scotland win a higher percentage of public sector contracts than their share of turnover in the whole economy. That is positive and we have managed to deliver on that in recent years. We keep a focus on that because we recognise how important it is.¹⁴
171. The Scottish Government’s most recent [Annual Report on Procurement Activity in Scotland](#), noted that 5,045 regulated contacts were awarded across the public

sector in 2019/20, with a total public sector procurement spend (in Scotland and elsewhere) of £13.3 billion (£7.4 billion in Scotland). The report points out that during the reporting period, 79% of contracts awarded through Public Contracts Scotland were awarded to SMEs, 63% of which were Scottish based.⁵⁸ In a recent publication however, the Federation of Small Businesses noted that, although contracts may be awarded to Scottish based firms, those firms may not be based in the locality of the building project.⁵⁹

172. On the issue of public procurement being largely driven by cost, the Minister pointed out that sustainable procurement is governed by the Procurement Reform (Scotland) Act 2014, and that—

” ...a whole range of factors are considered. In fact, choosing a provider based only on price is not an option. In public sector procurement, you need to look at a wider range of factors including local issues, sustainability, small and medium-sized enterprises and other factors as part of the decision-making process. We have moved a long way from choosing only on price, but there is more to do.¹⁴

173. The Committee notes that the Scottish Government's Procurement strategy: April 2021 to March 2023, makes only brief mention of to supply chains in a reference to the SCDP. It states—

” Our new Supply Chains Development Programme was announced in the September 2020 Programme for Government. It is a key part of our economic recovery approach and will support the work on the National Mission for Jobs by improving the capacity, capability and development of Scottish supply chains. The Programme brings together economic development and procurement. It will align strategic enterprise and innovation support with significant public sector procurement to build resilient strategic supply chains and deliver better economic outcomes.⁶⁰

174. The previous Economy, Energy and Fair Work Committee in Session 5 recommended in its [legacy report](#), that public procurement would benefit from further scrutiny, in particular, whether there has been improvement in SME access to contracts.⁶¹

175. The Committee recognises the tension in public procurement, with public expenditure often being driven by best value and cost which needs to be balanced with sustainability and local supply chains. It considers that a further localised breakdown of data on the award of public contracts in Scotland would provide an improved evidence base and help inform both future procurement policy decisions. Such an approach could also help identify how a greater balance between sustainability and best value and cost might be achieved.

176. The Committee agrees however that the locality of a firm should be a major factor when awarding public contracts, both for the main contractor and sub-contractors as well as in the materials used for construction. It calls on the Scottish Government to consider whether the current procurement

legislation and/or guidance should be reviewed with a view towards giving locality of contractors, and the carbon miles of the materials used, enhanced prominence in the procurement process. This would help to build community wealth around the country, helping to reach Net Zero goals by reducing carbon miles, and also help to build future resilience in the supply chain.

177. **The Committee acknowledges the importance of public procurement to Scotland's economy and it will feature as a key consideration of its work during this session.**

178. The Committee heard that lack of knowledge of future planned major public projects can act as a bottleneck for firms making investment decisions which could support growth. [Scottish Renewables](#) said increased visibility of the pipeline of work is essential for smaller firms so they can be ready to deliver and make the necessary commitments to resources.⁵¹ [CITB Scotland](#) agreed—

” The Scottish Government has a critical role to play in supporting the attraction and retention of skills in the construction industry by providing a clear, long-term pipeline of work. This certainty will encourage employers to invest in the skills and training of their workforce.²⁰

179. The Minister agreed that the—

” ...pipeline aspect is hugely important in construction, and the sector has made great progress with it. I chair the construction leadership forum, and it has been a huge area of focus there. The Scottish Futures Trust has also been working hard on the matter with the Government. We have the pipeline in place that allows public sector organisations to put their future plans for construction work on the pipeline tool, and everybody can have a look to see what is coming up.¹⁴

180. The Scottish Futures Trust website notes that the tool details over 1,150 future public sector infrastructure projects, approximately 60% of which are below £2m in value, providing opportunities to SMEs.⁶²

181. The Minister noted that in the short time the tool has been operation, it had been “really effective and is making a huge difference”.¹⁴

182. **It is vital that the Scottish Government provides clarity as early as possible to industry on the nature and volume of public projects, and the necessary specification to allow local business to make the recruitment, training and investment decisions necessary to be ready to bid on work.**

183. **The Committee welcomes the introduction of the Construction Pipeline Forecast Tool but recommends that the Scottish Government makes a greater effort to publicise this facility to the construction industry so its benefits can be fully realised.**

The ScotWind auction and the offshore supply chain

184. [Unite](#) was critical of the UK Government's Contracts for Difference (CfD) scheme and argued for significant reform of the CfD arrangements to improve the outlook for domestic supply chains, and include local contract requirements. However, Unite urges the Scottish Government to use the levers at their disposal and utilise the powers in relation to Marine Scotland and the Crown Estate, as well as planning and procurement powers, to enable greater leverage in the contractual process as a matter of urgency.³⁹
185. Crown Estate Scotland [announced the results of the ScotWind auction on 17 January 2022](#) at which time it was too late for the Committee to consider as part of this inquiry.⁶³
186. Crown Estate Scotland indicated that information on the supply chain commitments made by the developers will be published in the coming weeks. The Committee is of the view that it would be helpful to have access to more information on how value for money will be 'locked in' to these contracts, given the considerable opportunities globally in this market through the transition to net zero.

Future resilience

187. The Committee's inquiry has highlighted a broad range of major challenges facing supply chains in Scotland, the rest of the UK and globally. It has made a variety of recommendations in this report related to skills and labour shortages, infrastructure and raw material supplies.
188. In addition to previously-existing challenges such as labour shortages and transport infrastructure constraints, the cumulative impact of recent major events such as the UK's exit from the EU, the COVID 19 pandemic and, most recently, the conflict in Ukraine, has placed enormous strain on supply chains. The Committee recognises that the effect of these shocks will take some time to be fully addressed.
189. The Committee acknowledges that much of the short-term activity in developing supply chains will be related to addressing these immediate priorities. It welcomes the creation of the Scottish Government's food supply task force and recognises that other additional work will be required to address issues arising from the developing situation in the Ukraine and other recent events.
190. However, one of the key messages to emerge from the evidence heard by the Committee is that Scotland and the rest of the UK need to be better prepared to withstand and respond to events that disrupt supply chains. It recognises this is not straightforward, particularly given the unexpected nature of the shocks that can emerge, as events in recent years, months and weeks have shown.
191. The [Is Scotland Climate Ready?](#) report to the Scottish Parliament in March 2022 by the Climate Change Committee found that there is no overarching plan to address climate risks to supply chains in Scotland although there is some support for supply chain resilience more generally. The report included a [recommendation](#) on a need to ensure that supply chains are resilient to climate change hazards. It said that the Parliament should—
- ” Ensure that adaptation is integrated into major upcoming policies in the next two years regarding risks to the supply of food, goods and vital services due to climate-related collapse of supply chains and distribution networks; and
- Set out measures to ensure the resilience of the food supply chain, including to the risks of extreme weather in Scotland and internationally.⁶⁴
192. The Committee notes that lessons were learned from previous shocks such as the extreme winter weather event (the “Beast from the East”) in 2018. It therefore considers it imperative that learning from the recent and continuing series of major disruptions - Beast from the East, Brexit and Covid - is institutionalised in order to build, embed and develop further Scotland's capability and resource to withstand future and continuing supply chain impacts and become a more resilient economy. The Committee notes that the Supply Chain Development Programme appears to focus on identifying new development opportunities and does not specifically mention any activity to increase the resilience of existing supply chains.

193. **In this regard, the Committee recommends that the Scottish Government**

should establish a mechanism for engaging with the private sector, enterprise agencies and other stakeholders to embed learning and develop contingency planning to significantly improve the resilience of supply chains. It suggests that the remit of the Supply Chain Development Programme could be expanded to deliver this. It further suggests that the experiences of the short-term food supply task force could inform thinking on how such work might best be framed in order to gain maximum benefit.

194. The Committee also requests a full update from the Scottish Government on the work that has been undertaken to date under the Supply Chain Development Programme, together with details of planned activity and current priorities.

195. In addition, the Committee notes that there appears to be little collaboration between the Scottish and UK Governments to ensure that initiatives designed to develop supply chains and help them overcome challenges are coordinated. It calls on both the Scottish and UK Governments, working closely with industry stakeholders, to identify opportunities for improvement in this area.

Annexe A - Extracts from minutes of Committee meetings

3rd Meeting, 2021 (Session 6) Wednesday 8 September 2021

Work Programme: The Committee considered its work programme and agreed to consider it again at the next meeting.

4th Meeting, 2021 (Session 6) Wednesday 15 September 2021

Work Programme: The Committee considered its work programme and agreed to consider an inquiry paper at a future meeting.

6th Meeting, 2021 (Session 6) Wednesday 29 September 2021

Work Programme: The Committee discussed its work programme, considered an inquiry approach paper and made a number of suggestions. The Committee delegated final sign-off to the Convener and Deputy Convener.

10th Meeting, 2021 (Session 6) Wednesday 10 November 2021

Scotland's supply chain: The Committee took evidence from—

- Katy Heidenreich, Supply Chain & Operations Director, Oil & Gas UK;
- Paul Hunter, Lecturer and Specialist Professional in Human Resource Management and Organisational Behaviour and
- Melanie Simms, Professor of Work and Employment, University of Glasgow Adam Smith Business School ;
- Mark Logan, Start-up & Scale-up Advisor, Scottish Government.

Scotland's Supply Chain: The Committee considered the evidence heard earlier in the meeting, agreed to invite Colleges Scotland to give evidence and that the Clerks would take forward arrangements for visits.

11th Meeting, 2021 (Session 6) Wednesday 17 November 2021

Scotland's supply chain: The Committee took evidence from—

- Chris Brodie, Director of Regional Skills Planning and Sector Development, Skills Development Scotland;
- Marie Hendry, Depute Director, External Engagement and Partnerships, Open University;
- Paul Little, Vice-Chair of the College Principals Group, Colleges Scotland;
- Richard McClelland, Director, Qualifications for Industry.

Scotland's supply chain: The Committee considered the evidence heard earlier in the meeting and the written submissions received and agreed to seek some further evidence.

12th Meeting, 2021 (Session 6) Wednesday 24 November 2021

Scotland's supply chain: The Committee took evidence from—

- Richard Ballantyne , Chief Executive, British Ports Association;
- Bryan Hepburn, Operations Manager, DFDS Group;
- Kieran Jude Fernandes, Professor of Operations Management, Durham Business School;
- Maggie Simpson, Director General, Rail Freight Group;
- Robert Windsor, Policy & Compliance Manager and Executive Director , British International Freight Association.

Scotland's supply chain: The Committee considered the evidence heard earlier in the meeting.

13th Meeting, 2021 (Session 6) Wednesday 1 December 2021

Scotland's supply chain: The Committee took evidence from—

- Dr John Lee, Head of Policy and Public Affairs, Scottish Grocers Federation;
- Ewan MacDonald-Russell, Head of Policy & External Affairs, Scottish Retail Consortium;
- Colin Smith, Chief Executive, Scottish Wholesale Association.

Scotland's supply chain: The Committee considered the evidence heard earlier in the meeting.

14th Meeting, 2021 (Session 6) Wednesday 8 December 2021

Scotland's supply chain: The Committee took evidence from—

- Gordon Banks, Managing Director , Cartmore Building Suppliers;
- Bill Ireland, Chief Executive Director, Logan Energy;
- Stephen Kemp, Board Member, Scottish Building Federation.

Evidence Session: The Committee considered the evidence heard earlier in the meeting and agreed to write to the Scottish Government for further information.

15th Meeting, 2021 (Session 6) Wednesday 15 December 2021

Scotland's supply chain: The Committee took evidence from—

- Professor Iain Bomphray, Director, Lightweight Manufacturing Centre;
- Professor Keith Ridgway, Executive Chair, National Manufacturing Institute Scotland;
- Nick Shields, Head of Business Support Services, Scottish Enterprise.

Scotland's supply chain: The Committee considered the evidence heard earlier in the meeting and agreed to [write to the UK Government](#) and the Construction Scotland Innovation Centre for further information.

3rd Meeting, 2022 (Session 6) Wednesday 26 January 2022

Scotland's supply chain: The Committee took evidence from—

- Ivan McKee, Minister for Business, Trade, Tourism and Enterprise, Scottish Government.

Scotland's supply chain: The Committee considered the evidence heard earlier in the meeting.

5th Meeting, 2022 (Session 6) Wednesday 9 February 2022

Scotland's supply chain (In Private): The Committee considered the main themes arising from evidence received during the inquiry and agreed to consider a draft report at a future meeting.

7th Meeting, 2022 (Session 6) 9 March 2022

Scotland's supply chain (In Private): The Committee considered a draft report, various changes were discussed and the Committee agreed to consider a revised draft report, in private, at a future meeting.

9th Meeting, 2022 (Session 6) Wednesday 30 March 2022

Scotland's supply chain (In Private): The Committee considered a draft report, various changes were discussed and the Committee agreed to consider a revised draft report, in private, at a future meeting.

10th Meeting, 2022 (Session 6) Wednesday 20 April 2022

TBC

Annexe B - Written Evidence Received

The Committee's call for views ran from 12 October 2021 to 9 November 2021, 40 responses were received in total.

The responses received were published on the Committee's website and can be accessed here:

https://yourviews.parliament.scot/efw/scotland-supply_chain/consultation/published_select_respondent

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- [14] Scottish Parliament. (2022, January 26). Economy and Fair Work Committee Official Report. Retrieved from <https://www.parliament.scot/chamber-and-committees/official-report/what-was-said-in-parliament/EFW-26-01-2022?meeting=13551&iob=122979>
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- 1 On 19 April, as the Committee finalised this report, the Cabinet Secretary for Finance and the Economy made a statement to the Parliament on transforming Scotland's tech sector.





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4 July 2022

Dear Claire,

I welcome the Committee's report following its inquiry into Scotland's supply chain in the context of challenges such as the COVID-19 pandemic and the UK Government's decision to leave the European Union, as well as more recently Russia's invasion of Ukraine. The Committee's wide-ranging report, structured around the three themes of people, place and product, identifies issues in relation to, among other areas, transportation, labour and skills, construction and manufacturing, and public procurement. I set out the Scottish Government response to the report's conclusions below, noting that conclusions 2, 23 and 34 do not require a response from the Scottish Government.

However, I also wish to remind the Committee of a crucially important overarching point, namely that many of the difficulties faced by Scottish businesses are a direct result of the UK Government's decision to exit the EU, and the 'hard Brexit' manner of exit which it deliberately chose to adopt. In all areas where supply chains here interact with EU businesses and systems, including not only the movement of materials and finished goods but also labour and skills, the UK Government's approach has made it harder and more costly for our businesses to operate. The Scottish Government will continue to do what it can to help businesses cope with these new challenges, but we have always been clear that it would not be possible to mitigate completely the damage inflicted on Scotland's economy by Brexit and the UK Government's handling of it.

HGV drivers

Conclusion 1: The Committee recognises the need for much more to be done to improve the attractiveness of jobs and careers in the transport and logistics sectors. It welcomes the Scottish Government's proposal in STPR2 to develop a strategy for improving rest and welfare facilities for HGV drivers in Scotland. However, the Scottish Government is asked to set out what other actions it is taking within its own responsibilities to seek to address such matters and what discussions it has had with the UK Government on these.

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Scottish Government response: Rest and welfare facilities are a key part of national and international road freight infrastructure, and provision of these to an appropriate standard is fundamental to ensuring safe, efficient and effective supply chains. Moreover, improved rest and welfare facilities can help retain experienced HGV drivers, widen the potential pool of new drivers, and improve diversity. The development of a strategy will consider the adequacy of the current offering and how improved working conditions for drivers could contribute to improving road safety and reducing crime. Our analysis and work will indicate which routes have gaps in provision and will develop a framework to address barriers hampering their development, consider issues of financial stability and develop adequate standards. We will then work with stakeholders and partners on how best to deliver these improvements.

Improving the attractiveness of a career in the road haulage industry and the diversity of the industry to enhance the potential driver pool are areas for government and industry to work in close partnership. Scottish Government Ministers and officials meet regularly with trade representatives to discuss these and other matters. In April, the Minister for Transport met with the Road Haulage Association (RHA) to discuss HGV driver vacancies. Transport Scotland officials have worked closely with the RHA and Logistics UK throughout the pandemic, and continue to discuss with them ways of working in partnership to make the industry a more compelling prospect for new and younger drivers. We will continue to work with industry to establish the level of need for drivers in Scotland.

Regulation of the UK logistics sector is reserved to the Westminster Government and Transport Scotland officials meet with the Department for Transport on a regular basis to discuss matters of interest, including the impacts of EU exit and COVID-19. The Scottish Government will continue to engage with the UK Government on whether its approach, for example, the introduction of driver bootcamps, has been successful in getting more drivers on the road.

The Scottish Government's continued investment in skills is part of our approach to ensuring a pipeline of workers for the sector. In the last financial year, up to the end of December 2021 assistance was provided for 1,101 logistics apprenticeship starts and overall there were 1,358 apprentices in training. Apprenticeship Levy payers can access up to £15,000 skills funding each year to develop their businesses through the Skills Development Scotland strand of the Flexible Workforce Development Fund.

Migration

Conclusion 3: The Scottish Government is asked to set out what action it is taking to work with the UK Government to ensure greater flexibility around the occupational shortage list and temporary visas for certain sectors.

Scottish Government response: The Scottish Government appreciates that migration is not the sole solution to labour and skills shortages, however it has a key role to play. Population projections published by National Records of Scotland show that Scotland's population is now projected to fall. In contrast the population of England, Wales and Northern Ireland are all expected to increase over the same period. Scotland has distinct demographic challenges as a result of our history of out-migration.

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These population projections do not reflect the impact of the ending of freedom of movement so potentially underestimate the demographic challenges Scotland faces. The ending of freedom of movement is projected to result in a 3-5% reduction in our working age population. We therefore need to do all we can to attract and retain people who want to make Scotland their home.

We value the skills and contributions of all people who come and settle in Scotland. Inward migration enriches our society for the better and migrants make a net contribution to our economy, our public services and our public finances. However, the current UK immigration system is overly bureaucratic and costly for individuals and for employers. In the current constitutional context, responsibility for immigration rests with the UK Government. Clearly in an independent Scotland, Scottish Ministers, accountable to the people of Scotland, could ensure that any immigration system focused on meeting the needs of Scotland.

However, this is not currently the case and in spite of our efforts, the UK Government has consistently failed to consult, collaborate, or work constructively with the Devolved Governments on any changes pertaining to the immigration system. Given the absence of constructive engagement on migration issues, the Devolved Governments have committed to meeting regularly on a trilateral basis to discuss migration issues impacting on our economy, public services and our communities. We urge the UK Government to reintroduce regular quadrilateral ministerial meetings and engage in a meaningful way.

We are doing everything within our powers to ensure that the needs of businesses are met, but our actions must be supplemented by immediate changes to the immigration system in order to quickly access the labour and skills we need.

The Scottish Government considers the current UK immigration system is unresponsive to labour market requirements. Shortages have illustrated that the level of available skills and labour domestically is wholly insufficient to compensate for the loss of free movement. On 15 December 2021, the Migration Advisory Committee (MAC) published its Annual Report. The MAC was in agreement with our position that short-term temporary visas were unattractive to migrants themselves, were unlikely to generate the flows of workers required, and reduce employers' ability to plan. In addition, the report strengthened the Scottish Government proposal to establish a longer-term temporary route, stating that if the UK Government were to offer concessions, it would 'likely make more sense to establish a migration route with clear conditions attached and a transparent method to decide when specific industries or occupations would be eligible to use this'.

We call for the UK Government to immediately revisit its previously-proposed 12-month temporary worker route and extend this offer to 24 months. As previously designed, the route should continue to be unsponsored and thus open to all sectors. If this were combined with the ability to easily transfer onto other eligible visa routes while a migrant is in the UK, this could represent a useful option for workers to come to the UK and help mitigate shortages. Given the fact that the UK Government was able to urgently introduce the currently inadequate short-term sectoral visas, there should be nothing to prevent further changes that provide an appropriate and more attractive offering for individuals and businesses.

The system of identifying and incentivising recruitment for occupations in shortage should align with the essential labour needs of all four UK nations, recognising fundamental differences in the demographics and skill base of each and the way that devolved services

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are organised. The Shortage Occupation List (SOL) should create an easier pathway through the immigration system for roles that are in shortage in the UK, however in its current form the SOL cannot effectively deliver for Scotland's economy, public services and communities. We need a system that is responsive to real life skills shortages and that does not arbitrarily equate skill level with salary.

The SOL should include a wide range of skill levels, with a more streamlined and responsive process for adding and removing roles from the list. While there is a Scottish specific SOL the only posts on that list are chemical scientists in the nuclear industry and Gaelic teachers. The Scottish Government currently has no formal role in determining what occupations are in shortage in Scotland and Scottish Ministers cannot currently commission the Migration Advisory Committee to consider changes to the Scottish SOL. Scottish Ministers, accountable to the Scottish Parliament are best placed to decide how to accommodate Scotland's distinct labour market and communities. Therefore, we reiterate our ask for a formal role in commissioning and determining which occupations are in shortage in Scotland.

Labour and skills

Conclusion 4: The Committee also calls on the UK Government to engage fully with the Scottish Government to consider how pragmatic, proportionate and achievable solutions can be identified and implemented to help ease the labour shortages in key sectors across Scotland.

Scottish Government response: We welcome this recommendation and hope that the UK Government will heed the Committee's call. Scottish Ministers have been making efforts to engage with the UK Government to consider these issues through the Economy Directors Forum and the Business and Industry Inter-Ministerial Group. On 14 June a joint letter from the Scottish, Northern Irish and Welsh Governments was sent to the UK Government Minister for Small Business, Consumers and Labour Markets, calling on the UK Government to commit to establishing a Joint Task Force on Labour Market shortages with the Scottish Government and other Devolved Administrations. This approach would enable constructive discussion around the measures required to tackle labour shortages, including those currently reserved to the UK Government.

Conclusion 5: Following the conclusion of the Committee's inquiry, the Scottish Government published its 10-year national strategy for economic transformation. The Committee notes the focus within that on growing Scotland's labour supply and addressing economic inactivity. The Scottish Government is asked to set out a clear delivery plan with milestones for progress on both counts.

Scottish Government response: Building on the commitment in the National Strategy for Economic Transformation (NSET) to systemically address Scotland's labour market inactivity challenges, this summer the Scottish Government is undertaking work to better understand the factors underpinning economic inactivity and barriers to participation across inactive cohorts. This will inform an assessment of the impact of existing government interventions to support these groups into work, the identification of any gaps in provision, and the value for money of any further measures for addressing the challenge.

The Scottish Government has committed to developing a Talent Attraction programme and a Migration Service for Scotland. Brought together, this will improve Scotland's ability to attract

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and recruit workers from outside of Scotland with the skills that our economy will need in the future, and support international workers in the migration and relocation process. An effective Talent Attraction programme and Migration Service takes the pressure away from the employer to provide relocation support, both initially and in the longer term, linking in with relevant experts and other services. As part of NSET, an Industry Advisory Group for Talent Attraction has been formed to share talent attraction expertise and identify locations in the rest of the UK to attract talent from.

Conclusion 6: The Committee notes the cluttered landscape of policy commitments, funding streams and other initiatives that are intended to ensure Scotland's workforce is equipped to make the transition to net zero. It has previously asked the Scottish Government to provide a clear roadmap for businesses, particularly smaller businesses, backed by practical support and non-loan-based funding to drive the necessary and sustained efforts needed to transition to net zero. The Committee calls on the Scottish Government to set out a clear roadmap for how it intends to ensure skills are developed, maintained and retained.

Scottish Government response: The Scottish Government is supporting organisations across Scotland transition to net zero and we will continue to work with the business community to identify and tackle the obstacles to sustainable growth both domestically and internationally. In line with this, we are working with stakeholders to develop guidance on Just Transition Planning for businesses, and bespoke advice and support for businesses - including specific support for SMEs - is also available through the enterprise agencies, Zero Waste Scotland, Business Gateway and the Scottish Environmental Protection Agency.

We are providing £100 million capital investment through the Green Jobs Fund, which will help businesses create green jobs through investment in equipment, premises, research and development. We are also supporting workers to engage in a just transition through the £100,000 we have provided to support just transition capacity within the trade union movement. This will provide dedicated worker engagement roles within the STUC to support just transition planning and delivery for workers. Together these actions can deliver good green jobs and support business growth as part of a just transition to net zero.

Offering support to businesses of all sizes is an essential part of achieving net zero. Through the Climate Emergency Skills Action Plan, we have committed to develop a Green Jobs Skills Hub that will raise awareness among employers and individuals of the need for behaviour change, and support them to take action to drive that change. It will also help develop the leadership and management skills that will be required for a net zero future. Additionally, the Hub will demonstrate and stimulate demand for the required skills through business service delivery; cascade intelligence into the skills system on the numbers and types of green jobs that will be needed over the next 25 years; and provide a consistent and collaborative approach to implementing skills change nationally across existing platforms and linking to wider initiatives.

Conclusion 7: The Committee calls on the Scottish Government to confirm that the work that is underway to review apprenticeships includes consideration of the concerns raised about the Apprenticeship Levy and the Flexible Workforce Development Fund. The Scottish Government is also asked to confirm the expected timescale for completion of this work.

Scottish Government response: We have long shared the Committee's concerns about the Apprenticeship Levy. It was introduced by the UK Government without any prior

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consultation with the Scottish Government, despite the policy area being devolved. It is important to recognise this when considering the concerns raised around the operation of the Levy.

The UK Chancellor indicated in his Spring Statement on 23 March that the UK Government will consider whether further intervention is needed to encourage employers to offer the high-quality employee training the UK needs. This will include examining whether the current tax system – including the operation of the Apprenticeship Levy – is doing enough to incentivise businesses to invest in the right kinds of training. The outcome of this review will potentially have an impact in Scotland. We currently receive a population share of the Levy receipts through the Scottish Government block grant, which continues to be invested in wider skills, training and employability to meet the needs of employers, the workforce and Scotland's economy. At this stage we have no information on how the Levy will be reviewed or whether there will be an opportunity for Devolved Administrations to be involved. We intend to write to the Chancellor seeking further information and involvement in the review.

The Scottish Government is committed to reviewing and adapting the apprenticeship system as part of our approach to continuous improvement, as well as continuing to work with partners to ensure apprenticeship frameworks meet the emerging skills needs of industry and our economy. Our focus is on ensuring that any developments and adaptations focus on optimising the system, both for employers and for apprentices themselves. This includes improving gender and equality outcomes, ensuring that we meet our net zero commitments, and addressing any barriers to SMEs and start-ups taking on apprentices.

The Flexible Workforce Development Fund (FWDF) was introduced in 2017 to offer businesses access to training support for employees. In Year 4 (2020-2021), the fund was opened up to SMEs, which are now able to access training support of up to £5,000 per year via Scotland's colleges and the Open University in Scotland. As we gather evidence to develop and implement a lifetime skills offer to enable individuals to access skills development throughout their working lives, it is right that we review existing programmes.

As the Committee has noted, independent evaluations of Individual Training Accounts and the FWDF are underway. Given their concerns about the accessibility of FWDF for large, multi-site organisations, both the Scottish Retail Consortium and the Union of Shop, Distributive and Allied Workers were approached for input to the evaluation. Evidence gathering for the evaluation is now complete and the draft final report is expected to be received in late July, with publication of the final report expected by Autumn. The recommendations will be considered by Scottish Ministers in the context of any future FWDF delivery and will also make a significant contribution to the development of the lifetime skills offer committed to in NSET.

NSET recognises the need highlighted by the Committee to support and incentivise people and their employers to invest in skills and training throughout their working lives, and the commitment to a lifetime skills offer will help us achieve this aim. We are currently focusing on gathering the research and evidence necessary to set robust foundations for this offer to build on. We are clear that it must target more funding towards those living in or at risk of poverty and will be engaging with individuals in this group and grass roots organisations working with them.

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Conclusion 8: The Committee heard in evidence how important it is to have thorough, collaborative planning for future skills requirements to ensure the right skills are available to meet the needs of employers and that people can obtain transferable skills to help them transition to new roles to address skills gaps. It notes that the Scottish Government's newly introduced Shared Outcomes Framework may help to address some of these skills alignment issues.

Conclusion 9: However, the Committee notes with concern the report by the AGS which calls on the Scottish Government to take urgent action to ensure progress is made in improving how workforce skills are planned and provided. The Committee calls on the Scottish Government to provide full details of how it intends to respond to the recommendations in the AGS report in order to reach its own objectives on skills alignment.

Conclusion 10: As the Committee would expect, one of the key elements of the recently announced national strategy for economic transformation is Scotland's skills development. The Committee is of the view that the success or otherwise of the strategy will be measured through effective and achievable delivery plans. The Committee therefore calls on the Scottish Government to set out clear delivery plans and timeframes for achieving the strategy's aims to tackle Scotland's skills gaps, shortages and mismatches.

Scottish Government response to conclusions 8, 9 and 10: NSET provides the context for our skills agenda for the next decade and contains three projects targeted towards delivering a skilled population in Scotland that is able to respond to the needs of the economy and its future direction:

- Adapt the Education and Skills System to make it more agile and responsive to our economic needs and ambitions
- Support and incentivise people, and their employers, to invest in skills and training throughout their working lives
- Expand Scotland's available talent pool, at all skills levels, to give employers the skills pipeline they need to take advantage of opportunities

NSET thus provides important framing and strategic direction to revitalise and develop our skills offer so it is better able to support Scotland's economies and communities. Delivery plans are currently being developed and will set out in further detail the key outcomes, milestones, deliverables and measures to enable effective monitoring and reporting.

NSET also reinforces the need for intensive collaboration between agencies in order to deliver enhanced alignment of provision with economic need, resulting in a more agile and responsive system. Audit Scotland's report is helpful in informing our approach in this vital area. The Scottish Government and both agencies have accepted the recommendations and had already both anticipated and moved to respond to the issues identified in the report – putting in place new, stronger and simpler governance with a clear line of sight to Ministers, as well as clearer definitions and measures for success in our Shared Outcomes Framework,¹ which was published on 9 March 2022. This is the means by which SDS and SFC monitor and report on existing collaborative projects that contribute to overarching skills outcomes.

¹ [Skills: shared outcomes framework - gov.scot \(www.gov.scot\)](https://www.gov.scot/Topics/consultations/consultations/2022/03/skills-shared-outcomes-framework)

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The implementation of the Framework is overseen by the Shared Outcomes Assurance Group,² which comprises representatives of the three partners. The group reports directly to the Minister for Higher Education and Further Education, Youth Employment and Training. Papers and minutes from the group are published on the Scottish Government website.³

Digital capabilities and skills, Logan Review and Tech Scalers

Conclusion 11: The Committee welcomes the renewed focus on developing Scotland's digital capabilities. However, it recommends that accelerated measurable action should be taken to ensure necessary progress.

Conclusion 12: The Committee considers it essential therefore that work is taken forward to address the digital skills shortage and prevent the digital skills gap in Scotland from growing. In this regard, it calls on the Scottish Government to provide full details of progress being made towards the implementation of the Logan review recommendations. This should set out work that is already being undertaken and that which is planned. The Scottish Government is also asked to provide an update on the establishment of the "Tech Scalers" network.

Scottish Government response to conclusions 11 and 12: Digital infrastructure is a key economic enabler and a critical part of our plans for a green and resilient economic recovery from COVID-19. Despite responsibility for telecommunications being reserved to the UK Government, we are making substantial investments in Scotland's digital infrastructure. We also continue to see a very competitive market for digital skills, with the number of digital vacancies continuing to rise in all sectors.

The Scottish Government has committed £100 million in this parliamentary session to developing the digital capabilities of Scotland's businesses. NSET contains a commitment to establish a Digital Productivity Fund, focused on supporting business to improve firm-level productivity and develop improved joint programmes of action to increase digital understanding and adoption.

In September 2020, we opened a small grant with a pot of £700,000 to support businesses to digitalise, and since then we have spent nearly £50 million through the Digital Development Grant. This programme has unlocked over £60 million of private sector investment and supported over 6,000 businesses to invest in technology, boost productivity and continue trading through the pandemic.

All of these programmes have reporting built in to demonstrate their impact, and a recent evaluation of digital support in Scotland showed that our current programmes are valued by businesses and deliver tangible economic benefits.

In Autumn 2022, two years after the initial publication of Mark Logan's Scottish Technology Ecosystem Review (STER), we will publish a report outlining progress on the review's recommendations and reaffirm our commitment to its implementation by outlining future plans. Ahead of this, in the coming weeks further details will be announced in relation to the

² [Annex C: Shared Outcomes Assurance Group - Terms of Reference - Skills: shared outcomes framework - gov.scot \(www.gov.scot\)](https://www.gov.scot/annex-c-shared-outcomes-assurance-group-terms-of-reference-skills-shared-outcomes-framework)

³ [Shared Outcomes Assurance Group minutes and papers: 17 January 2022 - gov.scot \(www.gov.scot\)](https://www.gov.scot/shared-outcomes-assurance-group-minutes-and-papers-17-january-2022)

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Tech Scaler network following the conclusion of a procurement process for a supplier. This is a transformative, multi-million pound investment which will support hundreds of tech start-ups to grow and scale in the years to come.

Significant progress has been made to date on the STER education recommendations, including the creation of STACS (Scottish Teachers Advancing Computing Science), a teacher-led organisation designed to spread best practice and advise us on implementation. In addition we have invested £1 million in new Computing Science hardware for all schools in Scotland. In Financial Year 2021/22 we delivered the £1 million Digital Start Fund and Digital Skills Pipeline programmes to upskill and reskill those wishing to enter a career in digital. We also funded the Digital Xtra Fund, which supports extracurricular activity for young people designed to engage and spark interest in pursuing further digital learning and a career in tech.

In 2022/23 we are investing a further £800,000 aimed at aligning ongoing and new skills initiatives more closely to the STER recommendations, whilst also seeking to leverage resources and drive synergies across a range of partners and interested parties, in order to continue to improve skills outcomes and better prepare Scotland's workforce for the opportunities available in the tech sector and more widely. This includes initiatives such as Tech Experts in the Classroom and Live Lessons, which continue to engage industry in the digital skills development of young people. In addition, the funding will go towards career promotion activity and training places to upskill and reskill individuals in order to address the immediate skills demand. Employers are also able to access the interest-free Digital Development Loan to upskill their employees.

Second Strategic Transport Projects Review

Conclusion 13: The Committee notes that the Scottish Government and Transport Scotland have recently published the second Strategic Transport Projects Review which includes several projects which aim to tackle some of the challenges raised during this enquiry. The Committee recognises that this is a strategic document, but urges the Scottish Government and Transport Scotland to prioritise engagement with industry and other stakeholders in determining the priority of these projects, and make firm commitments on the capacity increases to be delivered and the timeline for delivery to ensure that industry are ready to take advantage of the benefits of this public investment.

Scottish Government response: The second Strategic Transport Projects Review (STPR2) represents a major piece of work to make all of Scotland more sustainable, with economic viability, environmental protection and social equity at its core. It contains 45 recommendations for future investment in Scotland's strategic transport network. The recommendations reposition our transport investment priorities, with a firm focus on how transport can help us protect our climate and improve lives. STPR2 will inform our future spending as part of the overall transport infrastructure programme, and will support the measures set out in January in our route map to reduce car kilometres by 20% by 2030.

We have received over 450 responses to our consultation, including from a range of organisations directly involved or with a particular interest in Scotland's supply chain, from industry and other related stakeholders. All responses are now being carefully considered in the context of the draft recommendations. The feedback received will inform the production

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of a Delivery Plan, which will be published later this year and will look to provide a further level of detail on priority and programme for delivery.

STPR2 recommends the Scottish Government brings together public and private sector organisations to develop a net zero freight and logistics network for Scotland that would encourage the switch to more sustainable and efficient freight transport. This involves considering road fleets, rail freight locomotives and best use of freight capacity, and we fully anticipate the need to continue engaging with relevant stakeholders to achieve this.

Conclusion 14: The Committee notes that Transport Scotland has recently published the Strategic Transport Projects Review, which includes projects that aim to increase the capacity on the rail network for freight and further electrification of Scotland's railways. It also notes Network Rail's plan to increase the amount of freight on the network by 7.5% by 2024. However, the Committee notes that despite broad agreement amongst stakeholders that increasing rail freight will deliver environmental and economic benefits, coupled with recommendations for action from parliamentary committees over a period of several years, progress has been extremely limited. The Committee therefore recommends that the Scottish Government and Transport Scotland further explores with industry how a modal shift towards rail freight can be driven forward in Scotland, and seek to engage with the UK Government to increase capacity on the key links to major distribution hubs in the south.

Scottish Government response: The Scottish Government has prioritised work on the promotion of the benefits of using rail freight and works in partnership with the industry on this. We continue to engage with the rail industry through a number of industry freight meetings as well as on an individual basis. The Low Carbon Logistics Conference, which was held during COP26, attracted many businesses and attendees from across the country and beyond, to support and learn about the challenges and opportunities of moving towards lower carbon logistics.

We are supporting rail freight through significant investment and regulatory targets to facilitate modal shift and are currently considering targets for rail freight growth for the period 2024-29. In addition, the capital and revenue support grants (Freight Facilities Grant and Mode Shift Revenue Support) have helped and are helping significantly with modal shift.

Decarbonisation is our priority rail project and our rolling programme of efficient electrification on key routes is an important enabler for rail freight growth as this will improve connectivity and create additional capacity. This puts freight at the heart of our electrification, and the benefits of electrifying key routes will encourage more customers and businesses to look to rail for a green logistics solution.

Over 70% of freight lifted in Scotland is cross border traffic, so Scottish Government Ministers and officials continue to engage with the Department of Transport to strongly encourage it to urgently consider and prioritise the electrification of links to key English ports and strengthen the power supply on cross border routes to ensure that it is sufficient for current passenger and freight services and can accommodate expected growth. These measures could immediately unlock a significant shift in rail freight traction type and would result in a much more efficient use of the network for all. The superior performance of electric freight trains is also expected to unlock capacity and improve performance for passenger services as well. We continue to press the UK Government to ensure adequate investment in rail freight and in decarbonising rail infrastructure to support this.

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Ports and renewables

Conclusion 15: The Committee recommends that the Scottish Government works with the owners and operators of Scotland's ports to explore the viability of upgrading them to ensure that they are ready to take advantage of the significant opportunities that the transition to a net zero economy will offer, and leverage the £700m in income from the Scotwind auction round to support the necessary investment.

Conclusion 16: The Committee recommends that the Scottish Government should focus the £700m income from the Scotwind auction to support the development of supply chains in the renewable energy sector and the new technologies necessary to deliver a just transition.

Scottish Government response to conclusions 15 and 16: Ports in Scotland provide substantial employment, and contribute significantly to Scotland's economic growth and prosperity. The Scottish Government works closely with all of Scotland's ports, large and small, to maximise the positive contribution they make. It should be noted that ports are independent statutory bodies, each governed by their own local legislation, and are deemed commercial entities. Therefore, the Scottish Government is not involved in day-to-day operations or business decisions concerning the utilisation of resources. Ports are constantly adapting and investing to ensure they can best support the needs of their customers, and we have seen considerable success with Scottish ports, including facilitating the growth of the offshore renewable sector.

ScotWind is the world's largest offshore wind leasing round, putting Scotland at the forefront of the global development of offshore wind and represents a massive step forward in our transition to net zero. As the Cabinet Secretary for Net Zero, Energy and Transport outlined to the Scottish Parliament, Ministers are considering how the ScotWind revenues should be invested to maximise the benefits for the people of Scotland. Tackling the twin challenges of climate change and biodiversity loss, and securing lasting benefit for communities are key priorities for this investment. The Resource Spending Review delivers on this commitment by allocating up to £660 million of Scotwind revenue across the spending review period towards these priorities.

The Scottish Government notes and welcomes conclusion 16. The ScotWind projects will deliver investment across the Scottish supply chain and help create thousands of good green jobs, transforming the Scottish economy and accelerating our journey to becoming a net zero nation. The ScotWind leasing round was designed and administered by Crown Estate Scotland to focus on quality and deliverability of bids. Placing a cap on the amount bidders could offer per square kilometre ensured that bidders would have confidence to meet the further investment necessary to deliver on each project and realise the associated supply chain benefits. ScotWind's requirement for bidders to provide Supply Chain Development Statements has yielded commitments by developers to invest an average projection of £1.5 billion in Scotland per project, which equates to more than £25 billion across the 17 Scotwind offshore wind projects.

Green freeports

Conclusion 17: The Committee welcomes the announcement that the Scottish and UK Government have reached an agreement of the free ports / green ports policy proposals.

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The Committee recommends that that the Scottish Government work with the industry and unions to ensure that the proposals for two Green Ports address the concerns the Committee has heard about introducing competitive advantage to the industry and ensuring that workers benefit from these developments.

Scottish Government response: The Scottish Government is committed to ensuring that Green Ports deliver benefits for workers through the creation of significant numbers of high-quality, well-paid jobs, as well as contribute to our climate change ambitions. We note the Committee's recommendation and will work with the winning bidders and wider stakeholders to make sure that Fair Work practices are embedded across the two Green Ports in Scotland.

Wholesalers

Conclusion 18: The Committee recommends that the Scottish Government works with the Scottish Wholesale Association with a view to supporting an increase in the use of regional distribution centres which could reduce the demand for HGV drivers and encourage shifts to more sustainable transport methods, as well as improving competitiveness of smaller wholesalers and increase market access for smaller suppliers.

Scottish Government response: We engage extensively with the Scottish Wholesale Association on a range of interests related to the supply chain and will continue to do so through the Food Sector Resilience Group and the Zero Emissions Truck Taskforce.

The Scottish Government is carrying out a range of work exploring both the decarbonisation and improved efficiency of logistics supply chains, including last mile deliveries. Additionally, within the STPR2 process there is a recommendation to deliver behavioural change and modal shift to help reduce the number of goods vehicles' movements on the Scottish road network and emissions. We are happy to discuss with interested parties, including the SWA, proposals for new distribution centres or issues relating to existing ones, such as their contribution to more efficient supply chains and reducing emissions.

Transition to net zero

Conclusion 19: The Committee has heard from several witnesses that greater certainty is required in terms of the support that will be available for the transition to net zero and the specific solutions and technologies that the Scottish Government will promote so that industry can prepare for and make the transition in time to meet the climate goals.

Scottish Government response: The Resource Spending Review and targeted refresh of the Capital Spending Review prioritised delivery across the climate change agenda over the course of this Parliament. This includes an increase in resource spend to deliver our Heat in Building strategy by up to £75 million per year, directly supporting £1.8 billion of overall public investment (including capital) to decarbonise over a million homes and 50,000 non-domestic buildings by 2030. This is alongside providing £4 million of resource spend, and at least £150 million of capital investment, for the 10 year North East and Moray Just Transition Fund, which will help finance organisations, businesses, communities and individuals to transition to net zero, creating jobs in low carbon industries and contributing to the region's future prosperity.

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A just transition to net zero is an opportunity to go beyond delivering our climate goals to bring a nation-wide, cross-industry transformation and build a greener and more equal Scotland. We have committed to developing Just Transition Plans for sectors, regions and sites, beginning with our Energy Strategy and Just Transition Plan, and we will also be issuing guidance for businesses on how they can develop their own just transition plans. This will support business and industry across all areas of the Scottish economy requiring decarbonisation, to ensure that the economic and social opportunities from the transition to net zero are not missed and that risks associated with rapid structural change are mitigated. This approach builds on our National Just Transition Planning Framework, which sets out how we will work with a broad range of stakeholders in the development of plans to ensure co-design is at the heart of the planning process. Plans will act as a guiding document, providing certainty for those involved in the transition and will be underpinned by working in partnership with business, workers and local communities.

Conclusion 20: The Committee considers that more incentives are required to encourage the modal shift to electric vehicles such as making significant improvements to charging infrastructure to provide confidence to logistics operators or through fiscal incentives at a UK level, such as a reduction in VAT levels for such vehicles.

Scottish Government response: In January, the Cabinet Secretary for Net Zero, Energy and Transport announced a new draft vision for Scotland's public charging network, which places Scotland at the forefront of a world-leading clean, green charging network, meeting the needs of people, communities and businesses. Scotland already has the most comprehensive public electric vehicle charging network in the UK outside of London. By far the largest number of charge points are on the ChargePlace Scotland network which has received over £50 million of Scottish Government funding and has grown to over 2,200 charge points.

The Scottish Government's priorities are threefold: encouraging commercial investment in the electric vehicle charging network through our new £60 million Electric Vehicle Infrastructure Fund; introducing regulations for electric vehicle charge point installation in car parks of new buildings and developments; and working with communities and designers to make charging an electric vehicle simple and reliable.

This year we are allocating almost £2 million to Scotland's local authorities to enable them to develop public electric vehicle charge point expansion plans. Aligned with the new Electric Vehicle Infrastructure Fund that aims to double the size of the public network over the next four years, these plans will reflect local needs, identifying the charging infrastructure requirements and the opportunities for drawing in and smoothing out commercial investment across all of Scotland.

To build confidence in zero emission heavy goods vehicles, Transport Scotland has convened a Zero Emission Truck Taskforce comprising leaders across road haulage and logistics operators, manufacturing, energy, and finance sectors. Over the next year, the Taskforce will identify the hurdles and opportunities offered by the transition to zero emission trucks. Working collaboratively, it will set out the steps required to enable a swift and just transition to new technologies, identifying where further development is required and exploring new business models.

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To facilitate the timely electrification of road transport in Scotland, the UK Government needs to create the conditions to enable electricity Distribution Network Operators to invest in the electricity network in advance of need, where there is clear evidence that doing so will be beneficial. The UK Government also has opportunities to use fiscal levers to incentivise the transition, including VAT on the use of electric vehicle charge points, so that it creates a fairer and more level playing field across different groups of society. The Scottish Government would welcome the Committee's support to urge progress here.

Supply Chains Development Programme

Conclusion 21: The Committee notes the problems that can arise due to a lack of local suppliers when shocks to the supply chain occur such as those felt during the pandemic, or those currently being experienced as a result of Russia's invasion of Ukraine. The Committee welcomes the establishment of the Scottish Government's Supply Chains Development Programme in 2020 and its aims for that, and requests an update on this programme, its implementation plan and timeframes for action.

Scottish Government response: See response to conclusions 37 and 38 below.

Food production and supply chains

Conclusion 22: Food production was not an area considered during the inquiry, and falls within the remit of the Rural Affairs, Islands and Natural Environment Committee. However, the Committee acknowledges that the impact of the Ukraine crisis on Scotland's food supply is significant, and considers that steps should be taken to increase domestic production and identify alternative sources where possible to make Scotland more resilient in the face of current and future supply chain shocks. In this regard, it welcomes the creation of a short-life taskforce by the Scottish Government to work jointly with the relevant industry sectors to respond to and mitigate the impact of the series of supply chain shocks that have occurred in recent years.

Scottish Government response: The short-life Food Security and Supply Taskforce was established on 17 March with a purpose to monitor, identify and respond to any potential disruption to food security and supply resulting from the impact of the ongoing conflict in Ukraine. The report of the taskforce was published on 23 June⁴ and makes recommendations that cover three key themes: business and supply chain support, future national food security structures, and reserved issues to be raised with the UK Government. The taskforce has shown how collaboration between government and industry can work to the benefit of all our interests and focus on outcomes that protect us all.

Construction and manufacturing

Conclusion 24: The Committee agrees that opportunities exist to produce more products in Scotland for both local consumption and export, particularly in the building and construction sector and in key emerging markets, such as wind, tidal and hydrogen energy.

⁴ [Short Life Food Security and Supply Taskforce: report - gov.scot \(www.gov.scot\)](https://www.gov.scot/resources/documents/2022/06/Short-Life-Food-Security-and-Supply-Taskforce-report-2022-06-23.pdf)

Scottish Government response: The Scottish Government agrees with the Committee and is determined to encourage, enable and exploit more opportunities that exist across Scotland to create new green products and services, and the skills, jobs and businesses which will go with them. Our manufacturing programme, *Making Scotland's Future*, is designed to support businesses to do that through a series of work streams led by public sector partners. A particular focus of *Making Scotland's Future* is emerging key markets, including those highlighted by the Committee, and working with lead policy officials and other key players within those industries to maximise opportunities for manufacturing companies.

The National Strategy for Economic Transformation sets out a range of actions to strengthen Scotland's position in new markets and industries to generate well-paid jobs and support a just transition to net zero. We are now developing sectoral and regional Just Transition Plans, including a Just Transition Plan for Buildings and Construction, which will identify relevant green industrial opportunities. Our first Just Transition Plan will be the Energy Strategy and Just Transition Plan, which is intended for publication in draft form this autumn.

We are also continuing to strengthen our domestic energy supply chain, recognising the considerable opportunities offered by renewables. We have announced a Hydrogen Supply Chain Event at the Edinburgh International Conference Centre on 22 September to help build on and explore the opportunities that exist within this emerging sector. For Offshore Wind, applicants to the ScotWind leasing round were required to submit a Supply Chain Development Statement (SCDS) that sets out the level and location of supply chain impact throughout the lifetime of projects. As noted above, these commitments amount to billions of pounds of investment to the Scottish supply chain, with initial projections showing an average spend of £1.5 billion in Scotland per project.

Conclusion 25: Given these opportunities, the Committee recommends that the Scottish Government lead by example and include carbon miles in its criteria for public building projects, to encourage more local production.

Scottish Government response: This summer the Scottish Government will extend its Construction Procurement Policy⁵ and supporting guidance to consider Sustainability in Construction, assisting public sector contracting bodies to deliver their climate change emissions targets and social, economic and environmentally sustainable objective.

We support plans for a more sustainable, productive, innovative and diverse construction industry. Working through the Construction Leaders Forum's (CLF's) Transformation sub-group, we are building on existing work to prepare the industry to deliver a net zero carbon built environment. Work is ongoing to achieve low embedded carbon materials as a central feature of life-cycle net zero assets; prioritising local supply chains which support a whole life net zero sector, plus the development of clusters for timber products and recycled materials. This includes working closely with the Built Environment – Smarter Transformation (BE-ST), which is exploring alternative solutions to traditional methods and materials used for construction.

Projects are advised to set whole life carbon targets and/or objectives that will influence design, construction and procurement practices. This approach will encourage more responsible, efficient and circular resource use. It is recommended that projects refer to the

⁵ [Construction procurement - Public sector procurement - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/construction-procurement-policy-2022/pages/1-1-public-sector-procurement.aspx)

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Scottish Government Net Zero Public Sector Building Standard guidance⁶ for the setting of embodied and operational targets, where appropriate.

Conclusion 26: The Committee also calls on the Scottish Government to work with the enterprise agencies to do more to enable businesses to identify and enable such opportunities.

Scottish Government response: The *Making Scotland's Future* programme has established a strong working partnership with our enterprise agencies and other public sector stakeholders. It is specifically designed to bring better coherence to the partnership's approach to supporting the sector and to maximise the impact of our interventions.

Conclusion 27: Given there can be a reluctance to make use of new more sustainable building materials, the Committee recommends that the Scottish Government should make appropriate amendments to building regulations to incentivise the use of more sustainable alternatives.

Scottish Government response: While the issue of whole life carbon costs is not currently addressed by building regulations in Scotland or, indeed anywhere in the UK, we recognise the benefit of any action which raises awareness of the broader environmental impact of development and influences development decisions. We will investigate opportunities for whole life emission reporting, through building regulations or by other means, and will provide an update on this before the end of 2022.

Through the work of the Supply Chain Development Programme we are investigating opportunities to increase the use of home grown Scottish timber in (largely offsite) construction. We have funded research at Edinburgh Napier University and the Built Environment-Smarter Transformation Unit to demonstrate that domestic timber is suitable for a number of uses in construction, for example, engineered timber products like glulam and CLT and more recently wood fibre insulation.

The Scottish Government supports the Food for Life Programme, which now operates across 18 local authorities in Scotland and supports the provision of more locally sourced, healthier food being served in schools.

It is important to note that any regulation which seeks to promote use of local materials would require to be considered against the provisions of both the UK Internal Market Act and wider legislation which seeks to prevent barriers to trade, such as World Trade Organisation rules.

Conclusion 28: The Committee recommends that the Scottish Government also lead by example and encourage the use of these sustainable locally produced alternatives via its procurement system, weighing bids on both the carbon miles of materials used, and whether the materials themselves are environmentally sustainable.

Scottish Government response: The Scottish Government will develop policies to drive the use of existing low-carbon materials.

⁶ [Net Zero Public Sector Buildings Standard - Scottish Futures Trust](#)

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Scottish Government climate change reporting duties⁷ and public procurement policy require public bodies to consider and act on opportunities to improve environmental wellbeing and to report on targets for reducing direct (e.g. Scope 1) and indirect (e.g. Scope 2 and Scope 3) emissions of greenhouse gases. Through the work of the Climate and Procurement Forum, standardised statements and accompanying guidance for public bodies potential suppliers has been developed to make better use of an existing environmental management question in the Single Procurement Document. This proposed initiative should aid public bodies embed scalable and consistent requirements for bidder climate change plans. Guidance has been produced, including climate change plan templates to assist bidders and will be reviewed regularly to continuously improve capacity and capability of suppliers. The Scottish Government's Sustainable Procurement Tools⁸ are available to all public bodies.

The draft National Planning Framework 4 (policy 2 – climate emergency) makes clear that all development should be designed to minimise emissions over its lifecycle in line with the decarbonisation pathways set out nationally; and that development proposals for national, major and critical development requiring Environmental Impact Assessment should be accompanied by a whole-life assessment of greenhouse gas emissions from the development.⁹ Furthermore, policy 20 (zero waste)¹⁰ is clear that all development should aim to use materials with the lowest forms of embodied emissions, that material should be suitable for reuse with minimal reprocessing, and encourages the use of previously used, sustainable, local, recycled and natural construction materials that also store carbon. Consultation on the draft NPF4 closed on 31 March 2022. We are considering all responses, and will lay a finalised NPF4 for approval by the Scottish Parliament before it is adopted by Ministers. Following its adoption, NPF4 will form part of the statutory development plan, the primary basis for decisions made through Scotland's planning system.

We are currently exploring the value and viability of launching a Sustainably Scottish brand. The Sustainably Scottish brand will champion Scotland's food and drink and will be available to all Scottish based producers, manufacturers and suppliers who can satisfy stringent criteria on provenance and low carbon operations. The first stages of research have been completed by the Scottish Agricultural Organisation Society (SAOS), including an international competitors review, consumer insights research, perspectives from in-market specialists, a review of Scottish / UK accreditation schemes, and issues analysis. This approach could potentially be extended to other materials.

Additional information can be found in response to Committee conclusion 25 above.

Conclusion 29: The Committee agrees that the opportunities offered by the development of these new, innovative and more environmentally sustainable alternatives present an exciting opportunity for Scotland to become a world leader in the field. The Committee hopes that more Scottish businesses will embrace these opportunities and take advantage of the support available to do so, for example from the Construction Scotland Innovation Centre.

Scottish Government response: The Scottish Government agrees with the Committee. In recent years, Scotland has developed an enviable infrastructure of support and

⁷ [The Climate Change \(Duties of Public Bodies: Reporting Requirements\) \(Scotland\) Order 2015 \(legislation.gov.uk\)](https://www.legislation.gov.uk)

⁸ [Sustainable Procurement \(sustainableprocurementtools.scot\)](https://www.sustainableprocurementtools.scot)

⁹ [policy-2-climate-emergency-pdf-203kb.pdf \(transformingplanning.scot\)](https://www.transformingplanning.scot/policy-2-climate-emergency-pdf-203kb.pdf)

¹⁰ [policy-20-zero-waste-pdf-244kb.pdf \(transformingplanning.scot\)](https://www.transformingplanning.scot/policy-20-zero-waste-pdf-244kb.pdf)

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expertise. This includes BE-ST (formerly Construction Scotland Innovation Centre), as one of our seven Scottish Innovation Centres, as well as many other initiatives such as the National Manufacturing Institute Scotland, Michelin Scotland Innovation Parc and the 12 projects offering free services to manufacturing SMEs funded by the Advancing Manufacturing Challenge Fund. *Making Scotland's Future* brings public sector partners and other key players together to ensure a coherent and widespread approach to encouraging more businesses to take advantage of these offerings and identify ways to help make them more accessible.

Conclusion 30: The Committee welcomes the inclusion of innovation with regards to more sustainable products and materials produced in Scotland in the Scottish Government's new economic strategy, and seeks assurances that this will include the raw materials used in the construction industry. The Committee awaits sight of the associated delivery plans.

Scottish Government response: We welcome the Committee's comments about the National Strategy for Economic Transformation and we are developing prioritised and affordable delivery plans for each of its programmes within six months of publication of the strategy.

NSET states that: "Our new Net Zero Industrial Strategy, our Supply Chain Development Programme and our Making Scotland's Future programme will maximise opportunities for the use of Scottish manufactured components and ensure that high-value technology and innovation that is developed in Scotland can be manufactured in Scotland."

In relation to construction, BE-ST and ZWS are working with companies across the supply chain to develop and deliver new sustainable products. These include the K-Briq, a sustainable brick; Indinature, sustainable insulation; Levensat, recycling waste; and the British Glass Manufacturers Confederation on flat glass recycling.

On 30 May the Scottish Government published consultations on a Circular Economy Bill¹¹ and Waste Route Map¹². The Route Map includes a package focusing on embedding sustainable construction practices that seeks to reduce resource needs, reduce waste and carbon, and encourage refurbishment and reuse. Timber products, for example, from domestic forests are sustainably produced and comply with the UK Forest Standard, which defines sustainable forest management. These can have multiple uses as they are repaired (pallets), reused (made into panel boards), or recycled (into biomass), over their lifetime. Each of these steps creates products that often substitute for more carbon intensive alternatives.

Conclusion 31: The Committee welcomes the work being undertaken as part of the Manufacturing Recovery Plan and notes the potential for the new and innovative products and systems being developed by Scottish firms. It notes the work done by the National Manufacturing Institute Scotland, Lightweight Manufacturing Centre, and Scottish Enterprise in assisting businesses to innovate in their production processes and encourages more businesses to consider this as a way to address current and future labour shortages, and to develop a sustainable and resilient supply chain.

¹¹ [Delivering Scotland's circular economy: a consultation on proposals for a Circular Economy Bill - Scottish Government - Citizen Space](#)

¹² [Delivering Scotland's circular economy: A Route Map to 2025 and beyond - Scottish Government - Citizen Space \(consult.gov.scot\)](#)

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Scottish Government response: The Scottish Government welcomes the Committee's recognition of the work being undertaken as a part of the *Making Scotland's Future: A Recovery Plan for Manufacturing* and by our partner organisations. *Making Scotland's Future* will continue to take this work forward and ensure a collaborative and coherent approach to maximise opportunities and impact.

Public procurement

Conclusion 32: The Committee recognises the tension in public procurement, with public expenditure often being driven by best value and cost which needs to be balanced with sustainability and local supply chains. It considers that a further localised breakdown of data on the award of public contracts in Scotland would provide an improved evidence base and help inform both future procurement policy decisions. Such an approach could also help identify how a greater balance between sustainability and best value and cost might be achieved.

Scottish Government response: During Financial Year 2020/21, Scottish public bodies advertised 15,635 new contract opportunities, with 18,880 suppliers awarded public sector contracts. Of these, 74% were Scottish; 62% were Scottish SMEs; and 78% were SMEs from all locations.

The latest published Scottish Ministers Annual Report on procurement activity in Scotland (covering FY2019-2020) shows that public procurement spend generates around £11.8 billion of economic activity for Scotland, contributing £6.5 billion to Scottish Gross Domestic Product and supporting around 120,000 full time equivalent jobs. Further, it confirms that £7.4 billion of public procurement spend went directly to businesses with a Scottish postcode, with many more businesses benefiting within our supply chains.

Our eProcurement Shared Service¹³ provides a vast amount of data on procurement activity across Scotland¹⁴ and we continue to work with service providers and users of the service to drive excellence, consistency and best practice in public procurement.

Conclusion 33: The Committee agrees however that the locality of a firm should be a major factor when awarding public contracts, both for the main contractor and sub-contractors as well as in the materials used for construction. It calls on the Scottish Government to consider whether the current procurement legislation and/or guidance should be reviewed with a view towards giving locality of contractors, and the carbon miles of the materials used, enhanced prominence in the procurement process. This would help to build community wealth around the country, helping to reach Net Zero goals by reducing carbon miles, and also help to build future resilience in the supply chain.

Scottish Government response: Following the UK's exit from the EU and the introduction of the Internal Market Act, the UK Government has made Subsidy Control a reserved matter without the consent of the Scottish Parliament, limiting the Scottish Government's ability to exercise devolved powers in this area.

¹³ [Home - Public Contracts Scotland](#) - our one stop shop advertising portal, which is the access point for any suppliers wishing to do business with the public sector across Scotland

¹⁴ <https://www.publiccontractsscotland.gov.uk/helpandresources/download/cef83ea3-1789-4aa0-8622-b6d204fcead7>

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We understand the importance of, and are committed to, maximising the impact of procurement to support economic recovery. However, we cannot lose sight of the fact that public procurement is of great importance to international trade, representing a major part of a country's market. Consequently, international trade agreements, including those governed by the World Trade Organisation, afford reciprocal access to public contracts. Simply preventing foreign firms from bidding for Scotland's public contracts would not only risk breaching international trade deals but could also limit opportunities for Scottish firms to export their goods and services to other countries. Scottish procurement policy and legislation therefore takes different approaches to maximising the social, economic and environmental sustainability of public contracts and the statistics outlined in response to Committee conclusion 32 above compare well. We are committed to exploring what more we can do.

By encouraging innovation, procurement can provide industry with incentives for developing green products and services,¹⁵ whilst helping to meet inclusivity goals through alleviating the barriers to securing procurement contracts SMEs might face globally. There are opportunities to encourage this through trade policy.

The Procurement Reform (Scotland) Act 2014 enshrined in law a public body's obligation to take account of social, economic and environmental considerations when undertaking a procurement, to devise processes that encourage the involvement of SMEs, the third sector and supported businesses, and to promote innovation.

In October 2021, the Scottish Government published guidance on supply chain resilience and diversity, reminding public bodies of practical steps that should be taken to support supply chains and help reduce the risk of disruption to supplies caused by supply chain vulnerabilities and surges in demand. This included:

- o ensuring they have identified higher risk supply chains, bottlenecks and vulnerable suppliers that need targeted action;
- o maximising opportunities to engage with the market to build the capability and flexible capacity of both existing and new supply chains;
- o engaging with key partners, including other public bodies, local economic development and enterprise organisations, to prioritise and target efforts;
- o considering action to achieve a positive social impact, assuring and protecting workers' rights within supply chains and achieving employment and skills where possible.

In addition, we engage with suppliers, economic colleagues and enterprise agencies to encourage engagement with local supply chains, and we offer support to small and third sector Scottish businesses on better bidding to help them win contracts. We continue to listen, learn and continually evolve our approaches to maximise the impact of procurement to embed fair work, climate and local considerations in more contracts.

Conclusion 35: It is vital that the Scottish Government provides clarity as early as possible to industry on the nature and volume of public projects, and the necessary specification to

¹⁵ European Commission (2016) Buying Green: A handbook on green public procurement 3rd edition <https://ec.europa.eu/environment/gpp/pdf/Buying-Green-Handbook-3rd-Edition.pdf>

allow local business to make the recruitment, training and investment decisions necessary to be ready to bid on work.

Scottish Government response: The Procurement Reform (Scotland) Act 2014 requires public bodies to publish forward-pipelines of upcoming contract opportunities in their Annual Procurement reports, and a Procurement Strategy which sets out that public body's policies, aims and objectives for their procurement spend. This gives business the chance to engage with public bodies to discuss requirements before the tender opportunity is advertised as an Invitation to Tender. The 2014 Act also requires that all public contract opportunities are advertised on a single website, Public Contract Scotland.¹⁶

The Scottish Government provides funding (up to £150,000 in 2022-23) to the Supplier Development Programme, which delivers free training and guidance on how to submit and win public procurement bids. The Programme also delivers free 'Meet the Buyer' events to put suppliers in touch with public sector buyers to learn more about up and coming contracts, in addition to running early engagement activities with public bodies to inform suppliers and ensure they have adequate time to prepare for specific contracting opportunities.

Construction Pipeline Forecast Tool and Supply Chains Development Programme

Conclusion 36: The Committee welcomes the introduction of the Construction Pipeline Forecast Tool but recommends that the Scottish Government makes a greater effort to publicise this facility to the construction industry so its benefits can be fully realised.

Scottish Government response: Partners in the public and private sectors are working together through the Construction Leadership Forum to deliver the wide-ranging changes needed across the industry to prepare for the new decarbonisation workload, constructing and refurbishing net-zero assets in a resource efficient way. Working through the Forum's Transformation sub-group, we will build on existing work to prepare the industry to deliver a net-zero carbon built environment, which is an ongoing action in the Construction Sector Recovery Plan.

Working with the Scottish Futures Trust, we are continuing to promote the Construction Pipeline Forecast Tool through industry groups, social media and with public sector bodies to increase participation. The tool was launched in July 2021 and since then has seen a 20% increase in the number of authorities, value of projects and sectors captured. The tool currently maps projects with a total value of £11.1 billion from 45 public sector authorities. Since its launch, the tool has seen steady growth in membership, with the total number of registered users currently at 800. A communication and user engagement strategy has been developed to raise awareness and increase usage.

Conclusion 37: In this regard, the Committee recommends that the Scottish Government should establish a mechanism for engaging with the private sector, enterprise agencies and other stakeholders to embed learning and develop contingency planning to significantly improve the resilience of supply chains. It suggests that the remit of the Supply Chain Development Programme could be expanded to deliver this. It further suggests that the experiences of the short-term food supply task force could inform thinking on how such work might best be framed in order to gain maximum benefit.

¹⁶ www.publiccontractsscotland.gov.uk

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Conclusion 38: The Committee also requests a full update from the Scottish Government on the work that has been undertaken to date under the Supply Chain Development Programme, together with details of planned activity and current priorities.

Scottish Government response to conclusions 37 and 38: The Supply Chain Development Programme (SCDP) was initiated following the successful joint response of Scottish manufacturers, public agencies and the National Manufacturing Institute Scotland to the immediate supply chain challenges posed by the COVID-19 pandemic. By bringing together a coordinated picture of demand and supply capability we aligned procurement, innovation and business support functions to meet the requirements of NHS Scotland and fill the critical gaps left by fragmenting global supply chains for PPE, sanitiser and other vital supplies.

Drawing on the lessons from that experience, NSET signalled an expansion of the SCDP. This will be focused on a selection of key products, which are critical to the delivery of our net zero ambitions. The SCDP is closely aligned with the Scottish Government's overarching programme for manufacturing, *Making Scotland's Future*, and will leverage its partnership to ensure a fully integrated system of delivery. The SCDP will complement that structure, which includes a work stream on Supply Chains and Competitiveness, to deliver a rounded approach to look at where both public and private sector supply chains can be more resilient and productive.

Our initial focus within the SCDP is targeting product development opportunities around heat decarbonisation, hydrogen production and the built environment. For example: the use of Scottish timber in (largely offsite) construction; Scottish manufacturing and installation of heat pumps; manufactured components for new green and blue hydrogen supply infrastructure; low emissions vehicles; and opportunities arising from the Scottish Health Industry Partnership (SHIP).

Conclusion 39: In addition, the Committee notes that there appears to be little collaboration between the Scottish and UK Governments to ensure that initiatives designed to develop supply chains and help them overcome challenges are coordinated. It calls on both the Scottish and UK Governments, working closely with industry stakeholders, to identify opportunities for improvement in this area.

Scottish Government response: Through *Making Scotland's Future*, Scotland is well placed to ensure Scottish manufacturers can engage with and fully participate in Innovate UK programmes targeted at the manufacturing sector and the development of related supply chains. Innovate UK is represented on the *Making Scotland's Future* Programme Board.

An example of where the Scottish Government is working with the UK Government, as well as regional partners, is on City Region and Regional Growth Deals. The Deals will deliver significant and lasting economic benefits for individuals, businesses and communities across Scotland, creating thousands of jobs and up-skilling local labour markets. All Deals are delivered by local authorities and other regional partners, including higher and further education, enterprise agencies, and the voluntary and private sectors. This enables regional partners to lead the delivery of their Deals, strengthen local relationships, and tailor investments in response to local opportunities and needs. The sheer scale of the £5 billion

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investment that is committed over the lifespan of the Scottish Deals Programme provides assurance and the ability to maximise regional supply chain opportunities.

The Committee's report mentions Green Ports, which we are fully committed to delivering in partnership with the UK Government. Green Ports will help us to create new, well paid jobs, deliver a just transition to a net zero economy, and support our economic transformation. As noted above in response to the Committee's conclusion 17, applicants in Scotland are required to set out how they will support high-quality employment opportunities that offer good salaries and conditions, and how Fair Work practices will be embedded in the Green Ports area. They are also required to contribute towards a just transition to net zero by 2045, delivering net zero benefits through robust decarbonisation strategies and creating new green jobs.

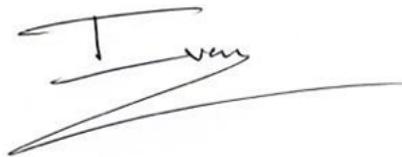
However, there are also examples of where the UK Government has refused to work effectively with the Scottish Government, which has presented obstacles to maximising Scotland's strengths and potential in areas critical to our economic transformation.

The UK Shared Prosperity Fund exemplifies the UK Government's encroachment into devolved policy areas through the Levelling Up Agenda and associated Funds. It is unacceptable for the UK Government to be deciding how money should be spent in areas of devolved responsibility. Despite continued assurances that relations will be reset with devolved governments, the UK Government continues to act in a manner that undermines the devolution settlement and does not offer parity of esteem.

Carbon capture and storage is a vital part of our energy transition, both as a mitigation approach and as a vital underpinning to negative emissions technologies. However, the Scottish Government does not hold all the necessary legislative and regulatory levers to support new carbon capture and storage projects. The UK Government's decision not to award the Scottish Cluster carbon capture project clear and definitive Track-1 status is a serious mistake which shows a clear lack of ambition and leadership on climate change, endangering Scotland and UK-wide net zero targets. It also delays and jeopardises a just transition for our energy workforce in Scotland, while the Scottish Government has offered £80 million to help accelerate the Scottish Cluster.

It is the Scottish Government's view that re-joining the EU at the earliest opportunity as an independent country represents the best future for Scotland, enabling us to take an even more ambitious and joined up approach to transforming Scotland's economy.

I hope that you find the above information helpful, and I would be happy to respond to any further questions the Committee may have.



IVAN MCKEE

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