



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Economy and Fair Work Committee

**Wednesday 5 October 2022**

**Session 6**



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**Wednesday 5 October 2022**

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**ECONOMY AND FAIR WORK COMMITTEE**

**22<sup>nd</sup> Meeting 2022, Session 6**

**CONVENER**

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

**DEPUTY CONVENER**

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

**COMMITTEE MEMBERS**

\*Maggie Chapman (North East Scotland) (Green)  
\*Jamie Halcro Johnston (Highlands and Islands) (Con)  
\*Fiona Hyslop (Linlithgow) (SNP)  
\*Gordon MacDonald (Edinburgh Pentlands) (SNP)  
\*Graham Simpson (Central Scotland) (Con)  
\*Colin Smyth (South Scotland) (Lab)  
\*Michelle Thomson (Falkirk East) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Marc Crothall (Scottish Tourism Alliance)  
Alasdair Hamilton (Scottish Government)  
Ivan McKee (Minister for Business, Trade, Tourism and Enterprise)  
Bryan Simpson (Unite Hospitality)  
Leon Thompson (UKHospitality Scotland)  
Rebecca Winterstein (Scottish Government)

**CLERK TO THE COMMITTEE**

Anne Peat

**LOCATION**

The James Clerk Maxwell Room (CR4)



## Scottish Parliament

### Economy and Fair Work Committee

*Wednesday 5 October 2022*

*[The Convener opened the meeting at 09:31]*

### Decision on Taking Business in Private

**The Convener (Claire Baker):** Good morning, and welcome to the 22nd meeting in 2022 of the Economy and Fair Work Committee. Under agenda item 1, I ask whether members are content to take items 8 and 9 in private.

**Members** *indicated agreement.*

## Subordinate Legislation

### Companies Act 2006 (Scottish public sector companies to be audited by the Auditor General for Scotland) (No 2) Order 2022 [Draft]

09:32

**The Convener:** I welcome to the meeting Ivan McKee, the Minister for Business, Trade, Tourism and Enterprise, who is joined by Ninian Christie, solicitor, and Rebecca Winterstein, head of capital investment at the Scottish Government. I invite the minister to make a short opening statement on the draft order.

**The Minister for Business, Trade, Tourism and Enterprise (Ivan McKee):** Thank you, convener. I am grateful for the opportunity to speak to the draft order, which relates to the audit of the Scottish Futures Trust. SFT is a non-departmental public body that acts as a centre for expertise on infrastructure. It works across the public and private sectors in Scotland to improve the efficiency and effectiveness of infrastructure investment.

SFT was established in 2008 as a public corporation and company and, as such, it was audited by commercial audit firms. In 2011, SFT was classified as a non-departmental public body by the Office for National Statistics. The majority of NDPBs are audited by the Auditor General for Scotland, and the Scottish Government and SFT have agreed that SFT should follow suit. The order will give the Auditor General the power to appoint an auditor to SFT in future.

The change is not a reflection on SFT's previous audit arrangements and it has no bearing on its functions. SFT has always been audited by reputable commercial auditors. SFT's annual accounts to date are available on its website and they have been laid at the Scottish Parliament each year. This is an administrative change to bring SFT's audit arrangements into line with those of other NDPBs.

In practical terms, we do not expect the change to have a significant impact for SFT. Audit Scotland could undertake the audit itself or it could contract the audit to an external audit firm such as the firms that were previously used by SFT.

I am joined by Rebecca Winterstein from the infrastructure and investment division and remotely by Ninian Christie from the Scottish Government legal directorate. They will be happy to join me in answering any questions that the committee has.

**Jamie Halcro Johnston (Highlands and Islands) (Con):** Good morning. The Scottish Futures Trust was set up in 2008 and it became an NDPB in 2011, which was 11 years ago. Why is the change being made only now?

**Ivan McKee:** That is a good question. A number of bodies had to go through the process and we have been working our way through it. As a private company, the SFT will have had contractual arrangements with commercial auditors for a number of years and it will have had to work through them. That was not the whole period; it was the latter period. In effect, this is just an exercise to bring things into line.

**Jamie Halcro Johnston:** Audit Scotland will now have the opportunity to look at the SFT. Do you know what its plans are? Will it be up to Audit Scotland to decide whether to look retrospectively at previous accounts? How will it work?

**Ivan McKee:** I do not know about looking retrospectively at previous accounts. I will ask officials to comment on the technicalities on that, but I think that there will be a discussion with Audit Scotland on the best arrangements. It is quite likely that it will look to continue using a commercial audit firm, as has happened in the past. However, that will be a matter for Audit Scotland. Rebecca, do you want to comment on the retrospective aspect?

**Rebecca Winterstein (Scottish Government):** The discussions that we have had with Audit Scotland have all been forward looking. It has not expressed any desire to look at accounts retrospectively.

**Ivan McKee:** Those accounts will have been published, so they are available to be looked at anyway.

**The Convener:** Colin Beattie is attending remotely this morning.

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** Good morning, minister. I have a couple of small questions. First, it is not clear from the documents that we have whether Audit Scotland has formally agreed to take this on. I know that there have been lots of discussions about it taking on additional audit functions and I presume that this is part of that. Linked to that, is there any impact on resources for Audit Scotland? Will it need additional people, money or whatever in order to carry out the audit? Is there a cost attached?

**Ivan McKee:** Officials can comment on the discussion, but my understanding is that Audit Scotland will take this on as part of its role because the SFT is an NDPB. On additional resource, that will be part of the overall discussion with it on what resource it needs to do its overall

job. As I said, it is quite likely that it will choose to use a commercial audit firm in that regard, which will be far less resource intensive for it. However, I do not know what discussions we have had in that regard.

**Rebecca Winterstein:** We have kept Audit Scotland closely involved as we have developed the draft order. It is perfectly content to take this on and we have had no discussions with it about associated costs. The SFT currently uses a commercial audit firm. If Audit Scotland also chooses to use a commercial audit firm, the cost to the public sector will be balanced.

**Colin Beattie:** If Audit Scotland uses an external firm to do the audit, as it does in some cases, there will not necessarily be any additional staffing costs for Audit Scotland, but there will still be an absolute cost, because there is a cost to carrying out the audit. Who will absorb that? Will it be absorbed by the SFT or will it be absorbed within the existing budget of Audit Scotland? It would be useful to understand that.

**Ivan McKee:** At the moment, the SFT is paying for the commercial audit. On which part of the public sector will pay for it going forward, I assume that it will still be the SFT, but we can clarify that if it would be helpful.

**Colin Beattie:** Okay. Thank you.

**Jamie Halcro Johnston:** Are any other NDPBs or organisations in a similar position? Are there any others that are going through the system or that you are intending to bring in?

**Ivan McKee:** That is a good question. I am not aware of any in my portfolio. There is one company that has already been through the process. It is a rail business, I think. I am looking for its name. It is Scottish Rail Holdings Ltd. Rebecca, are there any others across the piece?

**Rebecca Winterstein:** Not that I am aware of at this time.

**The Convener:** As members have no other questions, we move to agenda item 3, which is formal consideration of the motion to approve the draft order. I invite the minister to speak to and move motion S6M-05863.

*Motion moved,*

That the Economy and Fair Work Committee recommends that the Companies Act 2006 (Scottish public sector companies to be audited by the Auditor General for Scotland) (No. 2) Order 2022 [draft] be approved.—[*Ivan McKee*]

*Motion agreed to.*

**The Convener:** The motion is agreed to and the draft order is therefore approved. The committee will publish a short report on the decision soon.

I thank the minister and his officials for joining us. I will suspend the meeting briefly to allow a change of witnesses.

09:39

*Meeting suspended.*

09:39

*On resuming—*

## **UK Infrastructure Bank Bill**

**The Convener:** Agenda item 4 is consideration of the legislative consent memorandum for the UK Infrastructure Bank Bill, which is a United Kingdom Government bill. It was introduced in the House of Lords on 11 May 2022 and it seeks to change the law on devolved matters.

I again welcome Ivan McKee, Minister for Business, Trade, Tourism and Enterprise. The minister has been joined by Geoff Owenson, senior policy officer at the Scottish Government, whom I also welcome. I invite the minister to make a brief statement on the Scottish Government's position. We will then move on to questions from members.

**Ivan McKee:** Thank you for the opportunity to speak to you this morning about the legislative consent memorandum for the UK Infrastructure Bank Bill. The bill was lodged at Westminster on 11 May, and the legislative consent memorandum was lodged at the Scottish Parliament on 2 September.

The Scottish Government fully supports the aims of the UK Infrastructure Bank, which are broadly aligned with ours. Investment in infrastructure will be critical to meeting our commitment to a just transition to net zero and it plays an important role in supporting regional and local economic growth. The purpose of the UK Infrastructure Bank Bill is to put the bank on a statutory footing by placing its objectives in legislation. It is intended to create transparency, accountability and governance.

The UK Infrastructure Bank has already made its first investments. It has been operating on a non-statutory basis since it was established in July 2021. We welcome the £22 billion of financing capacity and the advisory services that are being made available to local authorities.

Although our aims are currently aligned, the policy landscape in Scotland differs from that of the rest of the UK, with our infrastructure investment plan, our global capital investment plan and our national strategy for economic transformation providing the framework for our policy priorities. Additionally, Scotland's climate change plan sets a target date for net zero emissions of all greenhouse gases by 2045, which is five years before the UK Government target. The timeframes and nature of Scotland's transition to net zero will therefore be different from those of other parts of the UK, and delivery will follow a different approach. We have therefore been seeking assurance that Scotland's interests will be

suitably reflected in the design and delivery of UK Infrastructure Bank activity.

The bill as introduced would allow HM Treasury by regulations made by statutory instrument to amend the UK Infrastructure Bank's functions or the meaning of "infrastructure". We appreciate that building in flexibility will allow the UK Infrastructure Bank to be responsive to changing priorities over the longer term without a requirement to update legislation. However, it also creates a future risk of divergence from Scottish Government priorities.

There is a clear overlap between the strategic objectives of the UK Infrastructure Bank and those of the Scottish National Investment Bank, particularly with regard to tackling climate change and supporting regional economic growth. In order to ensure that investments deliver maximum impact, we believe that it is imperative that the two banks are able to work together to identify and support appropriate infrastructure projects in Scotland. It is also crucial that Scottish interests are appropriately represented and that there is an awareness of our economic context.

We are therefore seeking an administrative mechanism such as a memorandum of understanding between the UK Infrastructure Bank and the Scottish National Investment Bank in order to support continued alignment in the approach over the long term. We have also asked for confirmation that there will be no funding implications with respect to the Scottish budget.

Scottish ministers are clear that the UK Infrastructure Bank Bill has merit, but some of the clauses continue to cause constitutional concern. The Cabinet Secretary for Finance and the Economy wrote to the Economic Secretary to the Treasury, John Glen, on 9 June offering in-principle support for a legislative consent motion, but that letter made it clear that legislative consent was contingent on the assurances that I have outlined being provided.

We remain in discussions with the UK Government about the assurances that we have requested. I am hopeful that we may be able to secure those, but we are still to receive a formal response. For now, therefore, I cannot recommend consent to the UK Infrastructure Bank Bill as it stands.

**The Convener:** Thank you, minister. You said that the Government wrote to the UK Government on 9 June looking for some assurances and you indicated that there are some on-going discussions. On the proposal for a memorandum of understanding between the UK Infrastructure Bank and the Scottish National Investment Bank, do you think that there is an understanding of the need for that? You mentioned a mechanism "such as a memorandum of understanding". Are any

other solutions being looked at in relation to the relationship between the two banks?

09:45

**Ivan McKee:** A memorandum of understanding to provide alignment between the Scottish National Investment Bank and the UK Infrastructure Bank would be helpful to ensure that that alignment is in place. There have been official-to-official discussions on the matter. I understand that those are progressing in a positive direction and that there is an understanding or a recognition on the UK side that that would be a helpful move. We remain hopeful that that will reach a positive conclusion. As I said, however, we are still in discussion on the detail.

**The Convener:** We may get progress there. I understand that there has been a suggestion or request from the Scottish Government that an individual with relevant knowledge of Scotland's policy and project landscape be included on the board of the investment panels in order to give that level of knowledge and expertise at the centre of decision making. Has there been a positive response to that?

**Ivan McKee:** From our perspective, that would make sense. As I said, it is important that Scottish interests and differences in the policy and economic landscape are reflected in the UK Infrastructure Bank, and we have made that request. We are less hopeful that there will be agreement from the UK side in that regard, but we continue to press the case because we believe that that would be a clear mechanism to ensure that Scottish interests were represented.

**The Convener:** Are there other organisations that use that model that could be used as an example of why it is important? It is not suggested that the person has to be based in Scotland or be Scottish; what is needed is somebody who has knowledge of the Scottish circumstances.

**Ivan McKee:** We have had similar discussions with the UK Government in other areas, but not always with success. We think that it makes sense to have somebody who explicitly has that understanding.

**The Convener:** Have there been discussions with the other devolved nations? Will the UK Infrastructure Bank cover Wales and Northern Ireland and are there similar concerns from them?

**Ivan McKee:** There is concern from Wales. The Welsh Government has not recommended consent either, on that basis.

**The Convener:** You mentioned concerns about Barnett consequential. Will you expand on those and say what assurances you are looking for?



**Ivan McKee:** Clearly, if there is money coming north as a consequence of things that the UK bank does—it has already invested £200 million in broadband as part of its initial investments in Scotland—we would not want that to be caught up in issues around the Barnett formula.

My understanding is that there have been discussions on that at official level and some progress has been made. There is recognition that that issue needs to be addressed. We hope that it will be resolved, but nothing has been clarified definitively yet.

**The Convener:** Is this a common concern? Are there other areas where the UK Government is making direct investments or payments into Scotland where there are concerns around Barnett consequential? I am thinking of levelling up money, green ports and other projects that are happening.

**Ivan McKee:** It is certainly an issue in terms of the route that levelling up funds follow. I have not been as close to that, but there has been quite a bit of discussion about green ports and whether they impact Barnett or not. Things are being considered on a case-by-case basis, and that is why we feel that it is important to get some clarification and assurances on this investment.

**The Convener:** You have highlighted the three areas and there are on-going discussions with UK Government officials, but what is the timescale? When will we know the outcome of those discussions?

**Ivan McKee:** The bill will be taken through in the rest of this year. We obviously want this to be resolved sooner rather than later.

**Graham Simpson (Central Scotland) (Con):** Hello, minister. I want to ask about your request for an individual who has knowledge of Scotland. You are not necessarily asking for a Scottish Government representative; it just needs to be someone who knows about Scotland. Could that be a UK Government person with knowledge of Scotland?

**Ivan McKee:** It needs to be somebody who understands Scottish Government policy and the context within which we operate—somebody who understands our national strategy for economic transformation, our net zero activity, our global capital investment plan, our focus on infrastructure, our strategic transport plan and so on, and who is able to make the case as to why and how the infrastructure bank's investments should be aligned with those priorities.

**Graham Simpson:** You are not asking—or maybe you are—to approve who that person is. That person could change, could they not?

**Ivan McKee:** Yes.

**Graham Simpson:** You are asking for that.

**Ivan McKee:** No—we are not asking for that. I meant, “Yes, the person could change.” We are just looking for the investment panels to include somebody who has an understanding of those issues.

**Graham Simpson:** Is Wales looking for something similar?

**Ivan McKee:** I am not sure whether Wales has made exactly the same case. It can speak for itself.

**Graham Simpson:** We are here to talk about Scotland, of course. Is your understanding that we will get a memorandum of understanding?

**Ivan McKee:** There seem to have been positive moves around that. I think that there is recognition that it makes sense. The details need to be worked through, but we hope that that will reach a positive conclusion.

**Graham Simpson:** The convener asked about the timescale. Am I correct to say that this Parliament will not be asked to take a view until later in the year or early next year?

**Ivan McKee:** If we get the issues resolved to our satisfaction, we will return with another recommendation at some point. That could be later this year or early next year—yes.

**Michelle Thomson (Falkirk East) (SNP):** It may be that this question should live with the Public Audit Committee, but have there been any discussions about how moneys that are spent by the UK Infrastructure Bank will be actively scrutinised, audited and aligned with the national performance framework, given that the Scottish Government is responsible for outcomes?

**Ivan McKee:** That reinforces the point that I made about the importance of the UK Infrastructure Bank having an understanding of the Scottish context. We need to consider the impact of the decisions that it makes on the national performance framework, which is central to the Scottish Government's priorities and the way that we work.

Officials might want to comment on the audit of the impact of that, but it will depend on what the investment is. I will take the current work on broadband as an example. If that goes as planned, it will have an impact on our broadband roll-out aspirations and contribute to our metrics on delivery of those. We monitor that as a separate piece of work. We can check and come back to you on the specifics.

**Michelle Thomson:** I highlight the issue because of the suggestions of an MOU and a representative who will consider the proactive, up-front aspirations in various areas. However, I am

also thinking about the reactive scrutiny element in relation to value for public money. Those are the two sides to the coin. However, you can come back to us on that.

**The Convener:** I have a final question on the proposed memorandum of understanding to create alignment between the UK Infrastructure Bank and the Scottish National Investment Bank. At the moment, the objectives for those two banks and institutions are quite similar. For example, they are both concerned with net zero ambitions. However, can you foresee a position where they could start to diverge and have different priorities? Is preventing that one of the purposes of having a memorandum of understanding? Why is it important to have that?

**Ivan McKee:** Divergence of priorities is an issue, and that is one reason why we want to have better processes for alignment in order to guard against that in the future. A memorandum of understanding will also help to ensure that the two institutions work together where it makes sense for them to do so and do not bump into each other, for want of a better phrase, when it comes to support for specific projects. When a project is looking for funding, it can talk to a number of institutions or investors. If the two banks understand each other and how they are operating in that space, it will make the process a bit more streamlined and efficient.

**The Convener:** Thank you. That brings our evidence session on the LCM to a close. I will suspend the meeting briefly to allow a change of witnesses.

09:54

*Meeting suspended.*

09:55

*On resuming—*

## Procurement Bill

**The Convener:** Item 5 is consideration of a legislative consent memorandum on the United Kingdom Procurement Bill. This is a UK Government bill that was introduced in the House of Lords on 11 May 2022, which changes the law on devolved matters. I welcome again Ivan McKee, Minister for Business, Trade, Tourism and Enterprise, who is joined by Julie Bain, a lawyer with the Scottish Government, and Alasdair Hamilton, procurement policy portfolio manager with the Scottish Government.

I invite the minister to make a brief statement before questions from members.

**Ivan McKee:** Thank you, convener.

The Procurement Bill is intended to reform the regulation of public procurement, primarily in the rest of the UK. The UK Government is keen to present it as a Brexit opportunity, but that ignores the fact that in Scotland we were able to reform public procurement while being a member of the European Union. The Procurement Reform (Scotland) Act 2014 placed a sustainable procurement duty on authorities to consider the economic, social and environmental wellbeing impact of a procurement exercise in their area. It increased transparency by requiring contracts to be advertised on one single portal and requiring that authorities publish a pipeline of expected contracts. The act also contained measures on community benefits, reporting and contracts for health and social care, all of which is compliant with EU rules.

Where the UK bill is most noticeably doing something different is in introducing new flexibility for buyers to design procurement procedures. It says that that will allow for a more responsive procurement system but will also mean that companies will potentially come across a new way of doing things every single time they bid, which will be different again from how contracts are awarded in the EU. We do not share the UK Government's enthusiasm for dumping EU rules for the sake of being seen to do something. For the most part, therefore, the bill will have no practical effect in Scotland.

There are three specific ways in which the bill engages with the LCM process, however. First, it seeks to regulate the procurement activities of reserved and cross-border bodies operating in Scotland. That mirrors the approach to scope and extent in the Procurement Reform (Scotland) Act 2014, which excludes bodies exercising reserved functions, meaning that they are not covered by

the sustainable procurement duty, for example. To that end, it is not unreasonable for them to be subject to this bill, but at present I cannot recommend that the Parliament consents to that, given the concerns that we have with other parts of the bill.

The second area in which the bill touches on devolved competence is cross-border procurement. Frameworks or similar agreements that are awarded under the new UK rules will not be compliant with the Scottish rules and devolved authorities in Scotland would not be able to use those arrangements. Similarly, UK bodies would not be able to use arrangements that are put in place under the Scottish rules. That is a practical issue that needs to be addressed, because buyers from both sides of the border co-operate with each other when it makes sense to do so.

The way in which the issue is addressed in the bill is unacceptable, however. The bill creates powers to address the issue through secondary legislation. Some of those are in devolved areas and are conferred on UK ministers without any requirement to secure the consent of the Scottish ministers before exercise. They are drafted very broadly, including a provision that would allow UK ministers to modify an act of the Scottish Parliament.

Finally, the third area in which the Procurement Bill touches on devolved competence is a power to implement international agreements relating to procurement. We agree that such a power is necessary. However, the power as presented is too broad and is conferred concurrently on UK and Scottish ministers with no requirement on UK ministers to secure the consent of the Scottish ministers before its exercise in devolved matters. There is no justification for that and I cannot recommend consenting to it.

It is a matter of regret that the UK Government did not engage with us more fully in the drafting of those elements of the Procurement Bill in order to arrive at a proposition that was acceptable. Had it done so, we could potentially have recommended consent. We remain in discussions with the UK Government about its plans and I hope that we may be able to secure some improvements, particularly on the practical issue of cross-border procurement, but we are not there yet. Therefore, for now I cannot recommend consent to the bill as it stands.

**The Convener:** Thank you, minister. I will take questions from members.

**Jamie Halcro Johnston:** Could you update us on those discussions with the UK Government? What has been happening and when is the next planned meeting. What level is the meeting at? Is it at official level or ministerial level?

10:00

**Ivan McKee:** At the moment, the meetings are at official level. The discussions are on-going, and officials can give you some dates if you require that. There has not been engagement at ministerial level. Of course, the UK Government has just changed all its ministers and we are establishing contact with them as we speak. I do not have any specifics on that.

**Alasdair Hamilton (Scottish Government):** Engagement has been going on for a number of months with the UK Government at official level, as the minister said, particularly on cross-border procurement. It has been a constructive engagement, but we are not yet at the point where we have a proposal on the table.

**Jamie Halcro Johnston:** We are looking at a number of LCMs today. Is it the intention that there will be engagement at ministerial level on those LCMs and perhaps more generally fairly soon?

**Ivan McKee:** On procurement?

**Jamie Halcro Johnston:** Engagement on the LCMs that we have here, plus a general meeting.

**Ivan McKee:** Yes, I am very keen to engage with UK Government ministers as often as required. I wrote to my UK Government counterparts when they took office in the past few days. We have a Department for Business, Energy and Industrial Strategy quadrilateral meeting in the diary already and other meetings are happening across my portfolio on a four-nations basis that will allow us to discuss these issues of trade, tourism and all manner of things that I am responsible for, such as digital. That is an on-going process. As those meetings start up again, these things will be discussed as part of that process.

**Michelle Thomson:** I have the same general observation that I relayed in the earlier session about how scrutiny will be undertaken and how there will be alignment with our priorities—in terms of fair work, conditionality or gender fairness—both proactively and up front and reactively in terms of value for spend and alignment to the national performance framework. That is my first question.

My second question is that it would be helpful for me—and would make your concern live—if you could outline some practical examples of where the fact that the powers are too broad would be a concern in procurement processes.

**Ivan McKee:** On the first point, as I said, the current situation is that Scottish law places requirements on bodies that are in devolved areas and bodies that are in reserved or cross-border areas are not included in that. This bill would cover them, so there is a different scope there.

On the practical effects, the problem is that the bill confers powers that could allow UK Government ministers to make changes to acts of the Scottish Parliament, so it is pretty broad and could cover a wide range of areas. The concern, therefore, is that we do not know whether it could have an impact, but it opens a door and what the UK Government chose to do with it would be a concern. We see issues because of the way in which the bill has been drafted and because it confers those powers. From our perspective, it is not acceptable for UK Government ministers to have the power to make changes to acts of the Scottish Parliament.

**Michelle Thomson:** I appreciate what you have outlined about engagement behind the scenes and at official level. Have any discussions taken place in either of those ways about the breadth of powers and about specific examples? Can you give any more colour to that?

**Ivan McKee:** There have been discussions at official level and I am ready to engage with UK Government ministers when they are in place and able to talk on this. Obviously, when they are taking a bill through Westminster, they are considering a range of aspects from different quarters and there will be amendments on a range of things as the bill goes through. We are part of that process of engaging with them to make them aware of our concerns, which we have done, and to address what they may be able to do about it.

In similar situations that I have been involved in previously, sometimes we are able to resolve those through ministerial discussions and sometimes we are not. As we get to that next stage, we will talk about the implications of it directly with UK Government ministers and, hopefully, they will recognise that they are able to make changes to the bill that take account of those.

**Michelle Thomson:** To go back to my first point, we covered this in an earlier session, but what was said then will belong in a different record. Will the discussions include any consideration of how procurement and the enactment of this bill will align directly with the national performance framework? I call your attention to the fact that the Finance and Public Administration Committee has asked that the UK Government has cognisance of this, because there are specific measurable outcomes that the Scottish Government will be measured against, even if it is not directly linear—we appreciate the complexity of the budget. Has any consideration been given to that or is that an additional area of concern for you?

**Ivan McKee:** As I said before, the procurement scope within Scotland covers the devolved aspects, and presently reserved and cross-border

bodies are not part of that mechanism or covered by that legislation. That reflects the situation as it stands now. I have responsibility for procurement and I work very closely with officials and others to ensure that the actions that we take on procurement support our policy objectives—community wealth building, sustainable procurement, more work going to Scottish businesses, more work going to small and medium-sized enterprises and so on. That is a relentless and on-going process and we look for every opportunity to take that forward. However, UK Government procurement has been outside that scope up until now and that would not change.

**Fiona Hyslop (Linlithgow) (SNP):** On the importance of procurement post EU exit, it has been recognised by everybody that there had to be legislation put in place. In January 2022, the UK and devolved Governments published the common framework on procurement, which this committee recognised was a practical and commonsense way forward. However, the Scottish Government notes in its LCM that it has not been able to fully address its concerns with the Procurement Bill. How has the common framework been operating in practice? Everybody was looking to that as being the practical means by which there could be that sensible, commonsense co-operation.

**Ivan McKee:** The cross-border co-operation on procurement is worth exploring. In effect at the moment, on either side of the border, organisations will put in place framework agreements with suppliers to enable them to make use of more advantageous procurement conditions. Organisations on either side of the border will leverage those agreements with the supply base to best effect. That situation already happens. Agreements are created by Scottish bodies with the supply base that organisations south of the border will leverage, and likewise in the opposite direction. Part of the concern that we have is that one effect of the bill as introduced would be to close off that co-operation because of the way in which the bill is drafted. It is a concern that it makes that process harder than it is at the moment. Do you want to comment on that, Alasdair?

**Alasdair Hamilton:** The common framework has been operating. We meet monthly with our counterparts at an official level and there is a six-monthly liaison group meeting. We have expressed in that forum our concerns that the UK's approach to this bill is not necessarily compliant with the common framework's principles of respect for devolved competence. That has been noted at that level. Working our way through this process will be the test for how the framework operates in practice.

**Fiona Hyslop:** What amendments do you want to see to enable the LCM to be consented to? What changes would you need to see to the bill for you to be able to bring forward an LCM for consent, particularly in relation to cross-border arrangements?

**Ivan McKee:** There are two clauses that we can highlight. Clause 83 gives UK Government ministers powers in devolved areas on the implementation of international agreements, which is concerning. Clause 103 likewise gives powers to UK Government ministers on cross-border arrangements. We think that both those clauses need to be amended. Are there any other aspects, Alasdair?

**Alasdair Hamilton:** Those are the two in which it should be ensured that there is a requirement to seek or secure the consent of Scottish ministers before their operation. Alternatively, perhaps, in the case of clause 103, which is the cross-border procurement, the measures necessary to give effect to cross-border co-operation should be put on the face of the bill rather than delegated. That might be an alternative way forward.

**Fiona Hyslop:** Do you think that this is more accidental mission creep as opposed to deliberate power grab? I am trying to be generous here. There are degrees of disagreement with LCMs. The Infrastructure Bank Bill looks more straightforward, but this one is so important because it is about procurement and we need to get it right. Is there something that you can try to resolve at ministerial level to get us back on track with the common framework agreement?

**Ivan McKee:** It is sometimes hard to tell the difference. The UK Government has many people working in it and a lot of things will come forward that perhaps could be written for different reasons without fully appreciating the implications. That is sometimes the situation and sometimes it is not. I hope that officials will work their way through that and be able to address it. If not, as I said, minister-to-minister engagement would allow us the opportunity to be more direct about the issues that we have with this and how they could be resolved. At that point it will perhaps be clearer as to what the intentions are.

**Fiona Hyslop:** I will ask another question that is more for clarification about how procurement is working. You talked about the Sustainable Procurement Bill and how in Scotland there is a desire—and this committee has also looked at this in its supply chain inquiry—to use procurement in a positive way in areas such as net zero, the living wage and gender. If the Department for Work and Pensions in Bathgate, in my constituency, was conducting its own procurement locally—obviously, a lot of DWP procurement will be centralised and be part of UK-wide common

frameworks—would we be expecting it to be subject to the conditionalities that we have or would it be part of what should be happening as part of the UK-wide common frameworks, because the procuring agency is reserved? We do not want the freedom that has been given to the reserved agencies in their procurement to compromise what is done in devolved areas. Some practical clarification would be good.

**Ivan McKee:** My understanding is that that is the situation now. In devolved areas, we can legislate for that and require procurement to follow certain processes, but for reserved or cross-border bodies that are outside the scope of devolved procurement legislation now, that will continue. We have that difference at the moment and nothing will change in that regard anyway.

**Fiona Hyslop:** Do we know what the volume is of UK reserved bodies' procurement in Scotland?

**Ivan McKee:** That is a good question. I know that Scottish procurement is about £14 billion. That includes local authorities, the national health service, other public bodies, the Scottish Government and so on. I do not have a figure for UK Government procurement in Scotland. It depends how you look at that—whether it is UK bodies that are operating in Scotland and placing their purchase orders from an entity in Scotland or UK Government bodies as a whole across the UK that may be buying from Scotland suppliers. There are a number of different ways to look at that, but I do not have that information to hand.

**Fiona Hyslop:** That would be interesting to know, if you have that information to share with the committee. I am aware that it is not specific to the area.

**Ivan McKee:** I suspect that it would be a broadly similar number, but I do not know for sure.

**The Convener:** This is probably a simple question and I am misunderstanding what is before us. Currently the situation is that if it is a reserved organisation or is cross-border, this will not change the way in which—

**Ivan McKee:** Yes.

**The Convener:** What does it change?

**Ivan McKee:** In the way in which it is drafted it gives powers to UK Government ministers to change things that are devolved.

**The Convener:** What is a practical example of that?

**Ivan McKee:** As it is written, it says that UK Government ministers can make changes to things that they cannot currently change. In a Scottish context, that is pretty broad. Do you want to comment on any specifics, Alasdair?

**Alasdair Hamilton:** If you look at the power in clause 83 to implement international agreements, the equivalent power for the UK ministers in relation to the UK act, as it will be, is to amend the schedule to that act so that international agreements are listed in it. We need a similar power in relation to the Scottish regulations to update the schedule to the Public Contract (Scotland) Regulations 2015, but the power as drafted is much broader and concurrently exercisable, which mean that it allows either UK or Scottish ministers to make provision to ensure equal treatment.

There are many different ways of ensuring equal treatment, so that will have scrutiny taken away from the Scottish Parliament and potentially it put in the hands of UK ministers. There is also the Henry VIII provision in that, which would allow amendments to future acts of the Scottish Parliament.

**The Convener:** Is the suggestion that we could have the Henry VIII powers or that the Scottish ministers should adopt Henry VIII powers in certain circumstances?

**Ivan McKee:** The issue that Alasdair Hamilton has commented on is about updating. If a new treaty was signed with someone else, it would add that to the list of treaties that would need to be taken into account when you take forward procurement legislation. It covers that.

**The Convener:** Thank you. I would also like to thank the Delegated Powers and Law Reform Committee for the work that it has done on this that has supported our questions this morning.

That brings the evidence session on this LCM to a close and I briefly suspend the meeting to allow for a change of witnesses.

10:16

*Meeting suspended.*

10:16

*On resuming—*

## **Trade (Australia and New Zealand) Bill**

**The Convener:** Agenda item 6 is consideration of a legislative consent memorandum on the UK Parliament Trade (Australia and New Zealand) Bill. This UK Government bill, which was introduced in the House of Commons on 11 May 2022, changes the law on devolved matters.

I welcome back to the meeting the Minister for Business, Trade, Tourism and Enterprise, Ivan McKee, as well as Julie Bain, who is a lawyer, and Alasdair Hamilton, who is procurement policy portfolio manager, all from the Scottish Government. We are joined this time by Leslie Henderson, who is team leader in food and drink regulation and trade at the Scottish Government.

I invite the minister to make a brief statement on the Scottish Government's position and then we will move to questions from members.

**Ivan McKee:** Thank you very much, convener.

The Trade (Australia and New Zealand) Bill is very narrowly focused. Although we have some wider and significant concerns about aspects of the free trade agreements with Australia and New Zealand, particularly with regard to agriculture, the focus of the bill itself is only on the implementation of the Government procurement chapters of those deals.

Amendments are needed to procurement legislation to extend duties of equal treatment to bidders from Australia and New Zealand and to make some minor amendments to procedural rules, and the UK Government has opted to confer a power on ministers to make those amendments. As with the power in the Procurement Bill that we have just discussed, the power is drafted too broadly and will be conferred concurrently on UK ministers as well as Scottish ministers with no requirement on UK ministers to secure the consent of Scottish ministers before exercising it in devolved areas. That is clearly unacceptable.

As I have said, the bill itself is relatively narrow in its focus on the procurement chapters of the two agreements, but it would be remiss of me not to say a few words about the agreements more broadly. The Scottish Government has had no direct role in negotiations, and we are very concerned by the impact of both agreements. Those concerns are particularly acute with regard to agri-food. The potential for imports to increase is huge: Australia currently exports 5,000 tonnes of beef to the UK each year, but the agreement will allow 35,000 tonnes in the first year, with the

figure increasing each year after. Of course, Australian producers do not have to adhere to the same animal welfare and environmental standards that Scottish farmers do.

It is a similar story with the New Zealand agreement, as a result of which access to the UK beef market will rise to 60,000 tonnes by year 15. There are almost no benefits in this deal for Scotland's food and drink sector. All that it achieves is exposure of the Scottish agricultural market to the most export-oriented food producers in the world.

To what end? UK Government analysis shows that the deal with New Zealand will deliver a 0.03 per cent benefit to UK gross domestic product over 15 years, with the Australia deal contributing 0.08 per cent. At the same time, the UK-EU Trade and Co-operation Agreement will lead to a contraction of UK GDP by 4.9 per cent over the same period. Of course, the economic self-harm of leaving the EU should come as no surprise. It is notable and worth highlighting that the EU has secured the same market access to New Zealand for its own exporters as the UK, but at a much lower cost to its domestic producers.

Being outside the EU and tied to a UK Government that is hell-bent on reaching trade agreements at almost any price so that it can pretend that Brexit is working is an invidious position to be in, but it is the position in which we find ourselves, and we must try to protect Scottish interests as best we can. The impact of these agreements will be felt throughout Scotland—

**The Convener:** I am sorry for interrupting, minister, but the committee's focus this morning is on scrutinising the LCM. I appreciate that there are broader issues that you wish to highlight, but I think that the committee is fairly familiar with the political discussion around this.

**Ivan McKee:** Absolutely, convener, and it is hugely important.

**The Convener:** Thank you very much. I will take questions from members.

**Maggie Chapman (North East Scotland) (Green):** Good morning, minister, and thank you for being here this morning. My question is similar to those which we started off with for the other LCMs that we have already discussed this morning. What discussions have you had since 13 June, when the Scottish Government published its LCM with the UK Government, and do you see any progress being made on the areas of concern that you have highlighted?

**Ivan McKee:** The areas of concern on this bill are broadly the same as those that we have highlighted on the Procurement Bill, specifically the power that it confers on UK Government

ministers in devolved areas. There has been discussion at official level but no discussion at ministerial level on that specific point.

**Maggie Chapman:** In the same way, do you hope that you will be able to work something out, or do you get the sense that your officials are meeting a group of intransigent UK officials?

**Ivan McKee:** I will let officials comment on that, but, as I have said, my experience has been that engagement at ministerial level sometimes resolves things and sometimes it does not, but until you have the conversation, it is difficult to know the UK Government's position.

**Alasdair Hamilton:** The issue with this power is very similar to that with the equivalent power in the Procurement Bill. We have been meeting Cabinet Office and Department for International Trade officials on the matter; they understand our concerns and are thinking about ways in which they can be resolved, but we do not have an agreement yet. It might arise—it might not.

**The Convener:** I call Fiona Hyslop.

**Fiona Hyslop:** There is an interplay between this LCM and the one that we have been considering on the Procurement Bill. My colleagues might not want to dwell on the politics of this, but the issue is that, as far as Scottish suppliers are concerned, there is not much gain and, indeed, there is potential vulnerability from this agreement. The issue is about procurement. In a practical sense, the UK Government is clearly responsible for the trade agreements, but the broad powers set out in the Procurement Bill might, in trying to make sure that the trade agreement goes through, undermine Scottish suppliers in comparison with, for example, their New Zealand counterparts. If, under the Procurement Bill, broad procurement powers are given to the UK Government with regard to, say, schools accessing lamb for school meals, that might undermine what we might want to do in Scotland to ensure that local authorities can access and procure local produce to help with sustainability.

I am just trying to make the implications more real. Nobody is disputing the UK Government's right to do these trade agreements; indeed, it might want to add subsequent ones into the legislation. The issue, primarily, is the interplay with the broad powers of the procurement legislation. Am I correct in my understanding of that? If I am incorrect in thinking that the procurement of Scottish produce for Scottish schools might be undermined by the procurement legislation, please correct me.

**Ivan McKee:** You are right in the sense that the trade deal as agreed by the UK Government enables much more produce from New Zealand

and Australia to come on to the UK market than is currently the case. Our concern about the Procurement Bill and this bill is the broad-ranging powers that it gives to UK Government ministers on devolved areas without having to seek the consent of the Scottish Government and Scottish ministers. What the UK Government then does with those powers is an open question, but these bills open that door and give it the powers to operate in devolved areas.

**Alasdair Hamilton:** I should add that the power in this bill is also a power to implement the Australia and New Zealand agreements as they might change in the future. Clearly we do not know what those changes might be.

**Fiona Hyslop:** I have to say that I am being generous; I do not expect the UK Government to undermine the Scottish supply chain, but without our consent or our being able to monitor and have scrutiny of this, things could happen by accident rather than by design. We in Parliament have a duty to scrutinise these things, and the problem is, if the UK Government can do this sort of thing in future legislation without even having to check with us, the door could be left open to unintended consequences. Is that a fairer representation of the situation?

**Ivan McKee:** Yes, that is part of it. If you look back at the process for negotiating trade deals, you will see that, in a paper that we published in 2016 or shortly thereafter, we highlighted how we saw the Scottish Government and other devolved Administrations being involved in defining, negotiating and implementing those trade deals. The UK Government has been very unhelpful with regard to working with us on those aspects, and the opportunities for scrutinising those deals are very, very limited. As you have said, the deals could evolve and change, and how they would then be implemented is something that would have to be taken forward. Through this process, UK Government ministers are giving themselves powers in that area that impinge on devolved aspects.

**The Convener:** I have a question that is linked to Ms Hyslop's. The Delegated Powers and Law Reform Committee has written to the UK Government, and one of its questions is about clause 1 of this bill, which is expected to be repealed once the Procurement Bill comes into force. Can you say more about how the two bills interact? We are spending all this time trying to looking at the changes in this bill, but what bits of it are going to be repealed? Am I correct in thinking that it is the Procurement Bill that will remain and that it is likely that aspects of this bill will be repealed?

**Ivan McKee:** Yes, the Procurement Bill will to some extent supersede this bill. Officials can talk

about that in a minute, but the fact is that, at this stage, we have the same concerns about both of them. We are not comfortable with either.

**The Convener:** Do you know what the timescales are for the provisions in question to be repealed and the Procurement Bill to supersede them?

**Alasdair Hamilton:** The Procurement Bill is in the House of Lords at the moment, but I expect this bill to proceed on a faster timescale.

There is a slight difference between the two powers. The power in this bill allows for implementation of the agreements, which is in two parts: the implementation of equal treatment obligations and the implementation of some minor amendments to the procedural rules for procurement. The UK Government plans to repeal that power when the Procurement Bill is enacted, because it will no longer be needed. The alternative power in clause 83 of the Procurement Bill is narrower and allows for only equal treatment obligations, not procedural rule changes. If rule changes were required as a result of other international agreements, primary legislation would be needed again. It all underlines why we are not particularly clear why the power in this bill is needed to cater for future changes when it is possibly going to be repealed within a year.

**The Convener:** Thank you. I call Michelle Thomson.

**Michelle Thomson:** I suspect that this has already been covered, but is part of your concern about getting this on the record now that, even if the power were to be subsequently changed a year down the road, it establishes a precedent that could be used for other potential disbenefits in similar trade deals, given the GDP figures that you outlined at the start of your statement?

**Ivan McKee:** Yes. This has come before us for a decision on legislative consent and, as it stands, we cannot agree to it. If the power is superseded by something else in the future, that is as may be, but that does not mean that we going to give consent to something just because it might not be around for very long.

**The Convener:** I call Graham Simpson.

**Graham Simpson:** Minister, what devolved areas are you concerned about in this respect?

**Ivan McKee:** We are concerned about procurement, because, as I have said, the power gives UK Government ministers scope to make changes to decisions taken by the Scottish Government and in Scottish Parliament legislation on procurement.

**Graham Simpson:** So it is just procurement.



**Ivan McKee:** There might well be broader implications, too.

**Alasdair Hamilton:** Our concern with this bill is just about procurement.

**The Convener:** If there are no other questions, that brings us to the end of the evidence session, and I thank the minister and his officials for joining us this morning to consider this LCM and the other LCMs that we have discussed.

I now propose a slight change to the agenda. If members agree, we will move into private session for agenda item 8 before we resume the meeting to hear from our final panel of witnesses. Are members happy to do that?

**Members indicated agreement.**

**The Convener:** We therefore move into private session.

10:29

*Meeting continued in private.*

11:11

*Meeting continued in public.*

## **Pre-budget Scrutiny 2023-24**

**The Convener:** Our next item of business is an evidence session as part of the committee's pre-budget scrutiny work. The purpose of this session is to inform our scrutiny with the aim of influencing the budget before spending priorities for the next financial year are set. Members will be aware that there will be a budget statement the first week back after October recess. The focus of today's session is the cost crisis and its impact on the tourism and hospitality industries.

I welcome Marc Crothall, who is the chief executive officer of Scottish Tourism Alliance; Bryan Simpson, who is industrial organiser at Unite hospitality; and Leon Thompson, who is executive director of UKHospitality Scotland.

A similar panel was before us in advance of last year's budget and the main call that we had at that time was for investment in stage 2 of the tourism recovery fund. The committee supported that call and the Government was sympathetic to it. That seems like a distant memory as we face a cost of living crisis and a rise in business costs. The sector is under pressure. Are we facing a bleaker situation as we go into this winter than we did coming out of the Covid pandemic? I will come to Marc Crothall first.

**Marc Crothall (Scottish Tourism Alliance):** Good morning. From a business point of view, everybody would say that we are in a worse place now than we were last year, without question. The impact of the cost rises affecting business, with the uncertainty of how to navigate through the challenges that are in front of us—some of those are still relatively unknown, and things are confused, as we have seen over the past few days—are causing concern, not the least of which is how to protect and invest in business to be competitive in the future, how to recover strongly and be sustainable and, of course, how to maintain the workforce that is in short supply anyway.

It is tough, to say the least. We are going into the winter months when many businesses in the sector traditionally close. How will they bridge the gap and repay not just the direct energy costs but some of what they have borrowed or the sizeable debt that many of them have taken on? So, yes, it is worse than Covid in terms of survival, currently.

The flipside of that is that you have a consumer base that is equally challenged with discretionary spend and how it might choose to prioritise that. The uncertainties of the leisure spend in particular over the coming weeks and months of the winter

period will put things at risk. I am sure that Leon Thompson can pick up on some of the feedback that we are getting from the hotel sector in particular.

**The Convener:** The STA's submission mentions a survey, and you say that you are

"gravely concerned that some businesses might never reopen again".

Is there a higher risk of that happening this year than there was last year?

11:15

**Marc Crothall:** We have already seen businesses take the decision to repurpose to ensure their viability by changing from being a hotel to becoming a residential property. I think that it was last week when BBC News reported on a number of properties in and around the Loch Lomond national park area where the smaller, mainly lifestyle hotel businesses have decided that, to try to counter the costs and everything else that is on the horizon, it is better to come out of the sector. There has also been a shift in the self-catering sector as a result of the short-term let licensing implementation process. Again, many of those operators have decided to come out of the marketplace.

Other operators have benefited from some of the international footfall that we have had, which has been hugely welcome, but if you speak to the inbound element of the tourism sector in particular, its challenges have been to do with the number of breaks in the supply chain, because some operators have disappeared and the skill sets and provisions that they offered are no longer there.

**The Convener:** I will come to Leon Thompson. Marc Crothall has outlined some of the key issues that the committee wants to explore, First, however, it would be helpful if you could reflect on where we are this year compared with last year.

**Leon Thompson (UKHospitality Scotland):** Good morning and thanks for the invitation to be here today. As we came out of Covid, nobody could have imagined that we would be facing a challenge of this scale after we felt that the worst was behind us. As Marc Crothall has said, the challenges that face businesses now are much more significant than those that they faced as a result of the pandemic. Businesses have been trying to move towards recovery and back to profitability, but we know from our surveys that, even as recently as the summer, only about one third of businesses were saying that they were trading at a profitable level. I suspect that that figure has declined in the past month or two.

Businesses are carrying debt because of the pandemic and now they face the challenge of the

rising costs of business. On top of that is the cost of living crisis, which the public is facing as well. Dealing with those two things together is completely unsustainable for many businesses.

A few months ago, we were talking about inflation being a massive problem. That problem remains, particularly food and drink inflation. Then the increases in energy costs came along, which dwarfed the problems that the businesses were experiencing. The support from the UK Government is incredibly welcome, but many businesses are still paying 200 per cent or 300 per cent more on their bills than they were even a few months ago. Obviously, that is a temporary fix for six months and we need to continue conversations with the UK Government about what the targeted support will look like for hospitality beyond that.

Businesses are really struggling. They are trying to manage their costs, while seeing consumer confidence plummeting. Members are saying that bookings are incredibly low for autumn and winter. We are moving towards Christmas, which is a massively important period for hospitality businesses. Some businesses might make only about one third of the money over the festive period than they would during normal times. Right now, there is not much demand for Christmas breaks, parties and those sorts of things, and a lot of businesses are scaling back their offer.

Many businesses are considering whether they will stay open over autumn and winter, because they know how expensive it will be to do so and they are not convinced that they will see the number of bookings coming through that they need. Businesses are making some very difficult decisions at the moment. These are businesses that ordinarily would trade all year round, and if they close temporarily—I hope—over the autumn and winter months, that is detrimental to the quality of the experience for the visitors who are around. Those businesses will still have costs to bear, including business rates and loans to pack back, but they will not have any revenue at all. It is a very difficult and challenging time for hospitality right now.

**The Convener:** In comparison with last year, quite a bit of support of different kinds went into the sector during the pandemic. At that time, the sector was closed, but furlough, business rates relief and other packages were available. You consider this crisis to be more significant, but is the support comparable in any way?

**Leon Thompson:** No, not at all. Beyond the energy support, nothing has been announced for business. We welcomed the reversal of the national insurance increase, which will give an average hospitality business another £10,000 or so back. That is something; they can invest that back into the business. However, that does not

really go anywhere when you look at the increases in the costs that businesses are contending with.

UKHospitality is continuing to ask the UK Government to revisit VAT. We feel that it needs to be lowered again; we would like to see it down to 10 per cent. That would help businesses in the short and medium term. We would also like to see additional business rates relief. From a Scotland perspective, if that can be secured and that comes through in the UK Government's budget in November, I would hope that there will be some Barnett consequentials that would benefit my members here and the wider hospitality sector.

Those are the kinds of areas of support that businesses need. However, they need that now; they cannot wait for another six or eight weeks to hear whether there will be more support. As things stand, it is very difficult—if not impossible—for viable businesses to make any sensible business decisions about what they are going to do. A great many businesses find themselves in that position.

**The Convener:** I will bring in Bryan Simpson. Members will have a number of questions that are directed to you, but I first ask that you reflect on Leon Thompson's comments on businesses making decisions about closing over the winter. Obviously, they employ people. What will the impact of such uncertainty in the sector be on people who work in it?

**Bryan Simpson (Unite Hospitality):** Leon Thompson and Marc Crothall are absolutely right. Since March, we have seen a huge reduction in footfall, which is obviously impacting not only businesses and employers but workers.

We have been surveying our members. A huge proportion of them are seeing a cut in their hours. In some cases, pubs and bars in particular are closing. Big Hospitality has done a survey that found that seven out of 10 pubs were on the brink and would not survive Christmas. Pubs, bars and some restaurants seem to be most impacted. Hotels are impacted as well but less so because of the international footfall that Marc Crothall mentioned earlier.

The impact on workers is a double whammy, because they are consumers, too. They are being hit with energy price rises. In my view, there is no price cap on energy—paying £2,500 is impossible for most of our members, whose average wage is between £18,000 and £21,000 a year. The rises immediately put them in energy poverty as they cannot afford to pay those bills.

It is a double whammy because they are being hit by the energy price rises and the cost of living crisis as citizens and because their businesses can no longer afford to retain them.

I will qualify that. We believe that a lot of large businesses—multinationals, for example—are taking advantage of the cost of living crisis and cutting staff numbers or at least cutting their hours. I am absolutely sure that a lot of small businesses that make up a large proportion of the employers cannot do anything else but cut hours. However, we would still challenge that. We campaign against hours being cut, especially if there is a contractual obligation. However, bearing in mind that 20 per cent of the sector's workforce are still on zero-hours contracts and they have no contractual right to hours, we are seeing their hours being cut back to as little as zero or four hours a week, which is just completely unsustainable.

**The Convener:** Thank you. I am going to move over to members. I remind members that it would be helpful if they direct the question to the member of the panel they wish to hear from. You do not have to invite all members to speak if you do not wish to—I am thinking about the time for the meeting.

**Graham Simpson:** I will take your advice and I will start with Leon Thompson. What all of you have described is a situation where costs are going up and there are fewer customers—I see that Marc Crothall wants in. I have not even asked the question.

**Marc Crothall:** I was just going to say that there has been demand, and the international demand has been very welcome. It is certainly not on the scale that we need, to be clear on that front. The domestic market has come but it has been very last-minute and it has been difficult to plan around. The trouble is the balance of the workforce being in shorter supply and costs going up, limiting the capacity of a property to drive the necessary yield that it needs to pay the bills. The demand is now definitely, without question, falling off a cliff and that is the challenge as we go into the winter.

**Graham Simpson:** Leon Thompson, can you explain what the main cost increases that businesses are dealing with are? We know about energy, but are there other things as well?

**Leon Thompson:** They are right across the board. With food and drink, we have seen inflation of up to 40 per cent on some items. There is wage inflation as well: businesses have had to pay more in a tight labour market to secure workers and to retain workforce. ONS put out some statistics that showed that the hospitality sector is paying 15 per cent more on wages than it was before. We are seeing interest rates going up as well. Businesses that are carrying debt, either as a result of Covid or because they have been investing in their businesses, now have to pay more on that borrowing. The costs are huge. Insurance is up as well and some businesses have been struggling to

secure insurance. The energy increases come on top of all of that.

**Graham Simpson:** You said that the measures by the UK Government on energy were welcome but were probably not enough. Is there anything more that either of our Governments could be doing?

**Leon Thompson:** I highlight that we are keen for the UK Government to bring down the VAT rate. We think that that would provide immediate support and, similarly, we would like increased support around business rates relief. Businesses in England are currently enjoying 50 per cent rate relief, albeit with caps. We would certainly like to see that replicated in Scotland as an absolute minimum. We understand the financial challenges that the Scottish Government has at the moment, but that is one of the levers that is there for ministers. If we can secure more money for business support from the UK Government, we would certainly hope to see the Barnett consequential being used to support our businesses.

**Graham Simpson:** You are all painting a pretty grim picture. Are you able to put any figures on that for Scotland? Bryan Simpson said that seven out of 10 pubs are on the brink. "On the brink" can mean anything, but are there any statistics that you can give us? I direct that to whoever can answer it.

**Marc Crothall:** A recent survey that has been done by the Scottish Licensed Trade Association across 600 pubs, I think, said that one out of 10 will shut for the winter and four out of 10 will reduce their hours significantly over the winter period—that was off the press last week. We have a snapshot survey out at the moment around the impact of energy following the announcements from the UK Government last week, because we want to get a feel and a sense of what that will mean for business closure in the short term. Let us be frank: not every business has benefited. Anyone who has signed up to a contract before 1 April will not see that benefit. The chair of the Scottish Tourism Alliance, Stephen Leckie, is one of those who will not qualify for that VAT across his whole estate, so it is not a broad-brush approach. The uncertainty of not knowing where you are is what is causing the challenge.

11:30

For us, in the longer term, the question is this: how do we stay competitive? We have to have investment into our assets if we are to be competitive on a global stage, and our ability not only to invest in basic maintenance and repair of a property, but also to be appealing and attractive to

that international audience that has the pound or the dollar to spend, is really important.

The business rates relief—we got the £27,000 cap in the first quarter of the year—was welcome, but a place such as Crieff Hydro hotel, for example, has a cost base of £25,000 at that lowest level, so the relief does not really touch the sides when it comes to having a real impact on a broader base.

We have to be able to find a way to invest for the future in infrastructure, the property, the asset and the people.

**Jamie Halcro Johnston:** I will put this to Marc Crothall first and then to Leon Thompson, if he wants to come in. It might seem to be a somewhat leading question. The STA has called for a pause on regulations that put increasing burdens on businesses at this time. Do you want to outline some of those regulations?

**Marc Crothall:** Thanks for the question. We were invited collectively to enter into a conversation about proposals for pausing or taking off the table existing, pending and new regulation. One of those pieces of regulation was the implementation and collection of the short-term licensing fee structure. Fiona Campbell herself had said it is not about taking the policy off the table altogether; it is about pausing that investment.

Another one was the deposit return scheme. I think that, for many, it is still a bit of an unknown, but it requires a sizeable up-front investment by operators of different shapes and sizes across the length and breadth of the country. Could that up-front investment be paused as well? There was a suggestion around the implementation of the 20p supplement on disposable cups from coffee shops and so on, which was largely to try to deflect a pause in consumer purchasing. It represents another cost on top.

The transient visitor levy has been committed to in the programme for government. We think that the sentiment element of that will cause some unnecessary damage to the current environment when we are trying to recover. The concerns that we have with the TVL are about staying competitive in a tax environment that is already not in parallel or better than anyone else. Also, as we have seen, some variables have arrived as a result of the short-term let licensing scheme, and we do not have a lot of confidence that the same would not apply.

**Jamie Halcro Johnston:** Can I come in on that? I live in Orkney and I know a number of people who run bed and breakfasts, some of whom are getting out of the sector. There has been a lot of confusion about the processes. There has been a disparity on cost. The proposal

is meant to be revenue neutral, but quite clearly certain councils are charging more than others.

First, do you think that councils will be able to deliver the scheme, given the procedures and checks that have to take place by the deadlines? Also, what are your concerns for the sector? There being fewer B and Bs means fewer people being able to find accommodation. We already have problems with hotels, particularly in the Highlands and Islands, as we have experienced over the summer. Will that mean that there is less available space for people to come and spend money locally, at a time when tourism will be key for many of those communities?

**Marc Crothall:** On the first part of your question, about the ability of a local authority to deliver on administration of the scheme and the disparity in prices, from recollection in Orkney it is about £208 and Edinburgh it is about £5,100—admittedly that is for a larger property. I think that, on Saturday, there were only 19 local authorities that were already in the collection process or had opened the door. The publication of the guidance was only issued at 11.57 on 30 September for a start on 1 October.

There will be a surge. Those operators who are currently legitimate and want to trade and take bookings for surety will apply now, and I guess that what happens will depend on how the local authority administrations manage that process. There is a big question around that, as well.

There is already evidence, which the Association of Scotland's Self-Caterers have reported on, of businesses choosing not to trade. I think that probably some of it is a bit too much for them, but we have to have a proposition and a blend of offering. We have some great hotel assets and some new builds as well, so there is plenty there, but if we do not have the right balance it will be a stretch to attract the right market. The fringe festival in Edinburgh highlighted concerns around a shortfall in accommodation at key times of the year. I think that the Scottish Rugby Union also has a view on that.

The situation is difficult, and I guess that cost neutrality is again a question. That goes back to my comments around the TVL process, should it arrive.

**Leon Thompson:** I agree with what you have heard. UKHospitality is very involved in the deposit return scheme, in trying to get members ready for it going live on 16 August next year. It is a very ambitious scheme and will completely change the way that we recycle in Scotland. There is a lot of concern about the length of time that remains to make the scheme operable. There is perhaps a sense of people hoping for the best on this, but we

could go live next August with the scheme not being completely bolted down.

One of the big risks is lack of awareness among businesses at the moment, and there are cost implications for businesses. Some of our larger members that I have been speaking to say that it will take them six months, end-to-end, for their project team to get everything ready across all the sites that they own and operate. At the smaller scale, there are businesses that are concerned about where they will keep all this valuable empty stock until it is collected, because it is a significant loss to the business if items go missing.

There are some real difficulties and challenges there and, because of everything else that businesses are facing at the moment, many owners just do not have the head space to think through what they need from that.

I was on a call with Lorna Slater last week, again outlining these issues but saying that we are committed to recycling and the net zero agenda, and that we will continue to promote the scheme to our members so that they are ready, but it is coming down the track really quickly and there are still too many businesses that do not know enough about it and just cannot give the necessary head space to the scheme. That is a problem.

Marc Crothall has highlighted the visitor levy as well. There was some dismay when we saw that in the programme for government. Officials and ministers are very clear that it will not appear until 2026 at the earliest but, as Marc Crothall has highlighted, we have got a sentiment issue there. Once all this starts to go out into the public domain, people will be looking at their newspapers and deciding not to come to Edinburgh or not to come to Scotland because there is a tourist tax in place. While Edinburgh might want to be the first city in the UK to introduce a tourist tax, it is not always best to go first. I think that we could have some significant challenges with sentiment and perception at a time when people are looking for value for money more than ever. That is an issue.

Marc Crothall highlighted single-use cups and so on. It is unclear when that measure might appear, but, again, it is something else that businesses will have to grapple with and will represent another cost for somebody.

There is the health agenda as well. There is calorie labelling, which has been introduced in England and will likely be introduced in Scotland at some point in the next year or two, and also activity around nutrition and the promotion of foods with high salt, fat and sugar content, which will impact on hospitality businesses too.

The weight of all of that is causing a big burden, but there are some very real costs to businesses as well. I was speaking to Edinburgh hotels about

the visitor levy and what that would mean. They will have set-up costs to manage that and information technology costs around changing systems. Some of these will be one-off costs and some will be recurring costs. There are also concerns about credit card charges on transactions and so on.

All of those things need to be discussed and bottomed out but, as things stand now, there is no financial recompense being discussed for businesses who have to shoulder those costs. Ultimately, it will be the visitor who pays the levy for the transaction, but there are some business costs there.

**The Convener:** There is an issue that I want to follow up on before I bring in Colin Beattie. You mentioned that the national insurance cut will be worth about £10,000 a year. The UK Government has sold that change by saying that it is

“committed to a low-tax, high-growth economy”

and to ensuring that businesses have

“the right conditions to drive investment, growth and productivity.”

It has stated that,

“As a result of this tax cut, businesses will have more money to invest in becoming more productive, pay higher wages, create more jobs and support the overall growth of the UK economy.”

However, it does not appear that that £10,000 will be useful for that this year.

**Leon Thompson:** It will go towards filling the gaps that are there.

**Colin Beattie:** I will direct my first question to Bryan Simpson. We are all aware of the UK Government’s announcement on support for energy costs. Witnesses have already commented that we are seeing an effort that is far short of what the Covid exercise was in a similar crisis. How confident are you that the sector will be able to support its workers through the cost of living crisis?

**Bryan Simpson:** We are not confident at all, if we go by the way in which hospitality workers in particular were treated during the pandemic, when there were enormous job losses in the sector. According to Fourth, which is the most-used human resources platform in the industry, the workforce shrank by 26 per cent between 2020 and 2021, going into 2022. That 26 per cent would equate to 58,000 job losses in the hospitality industry in Scotland. My colleagues have pointed out why that could be eclipsed by the cost of living crisis: we have a toxic combination of price rises for the workers and for the businesses that employ them.

The situation is cataclysmic. As I said, we have already seen an impact over the past six months with a reduction in hours. Staff are getting fewer tips because of the shortfall in customers and because people are not paying by cash. For a number of reasons, workers are not getting the tips that they used to rely on. All that is having a knock-on effect on workers whose average wage is £19,000 or £20,000 a year and who cannot afford the £2,500 price cap. It is a double whammy. I hope that that answers your question.

**Colin Beattie:** You mentioned that, during Covid, there was a drop of about 26 per cent in the number of people employed in the hospitality industry. Was there a pick-up post-Covid? In other words, did the employment level come back up?

**Bryan Simpson:** It did. If I can be frank, a lot of that happened through fire and rehire. A lot of multinational hotels terminated their employees’ contracts during the pandemic, despite the job retention scheme. There was a large hotel chain—which shall remain nameless for the purposes of this meeting—that terminated the contracts of 95 per cent of its workforce in Glasgow and Edinburgh at three flagship hotels, and then re-engaged those workers three months later. By the way, it terminated their contracts using public funding for their redundancy packages and then re-engaged them on lesser terms.

Obviously, that does not apply to all employers. There are small employers out there that are genuinely unable to retain their staff but, during the pandemic, a lot of multinational employers that absolutely could have afforded to keep their staff on terminated their contracts and then re-engaged them.

The numbers will have gone up. I do not have the facts on how many staff have been re-engaged. From our campaign against fire and rehire, we estimate that around 14,000 of those 58,000 were re-engaged, or we campaigned for them to be re-engaged, either on furlough or on 100 per cent of their wages.

11:45

**Colin Beattie:** Marc Crothall, I put the same question to you. How will the sector be able to support its workers through the cost of living crisis? How capable is the industry of doing that?

**Marc Crothall:** That is a challenge. Again, it is a question of making sure that the business still exists so that it can continue to provide employment for the longer term. To pick up on Bryan Simpson’s point, I note that a number of the 58,000 workers whom he mentioned were European workers who returned to Europe, so they might have taken the furlough payment and not come back into the marketplace.

There are good efforts and good examples of employers who are doing their utmost and being very creative in trying to retain staff. On the west coast of Scotland, there is a hotel company that I know is contributing to the employees' home domestic fuel bills as part of the benefits package, over and above meals and accommodation and everything else that they get, but not everybody can afford to do that. The risk comes where we are having to look at a balance of closure. Businesses will do the right thing through a process of having to let the employee go but, ultimately, they would love to stay open and trade and keep that employee in situ, because so many of them have invested significantly in the employee skills programme over the course of the past two years.

We have had some great funding from the Scottish Government to run the tourism and hospitality talent programme, which I think 3,500 colleagues have gone through. It is a challenge if they are not able to stay in employment, but I have heard from well-known businesses in the central belt that have said that some employees simply could not afford to get to work and they had to give up their contract. It was not the hotel dismissing them in any way, shape or form; it was the employee making the decision that they could not afford to pay for the fuel costs to drive to and from work. That is in certain parts of the country, not necessarily in Scotland as a whole.

We need to invest in our future workforce and grow it, so that we can service the demand and deliver on the expectation of the future customer.

**Colin Beattie:** Bryan Simpson has mentioned a couple of times workers moving on to reduced hours. Do you recognise that as an issue at the moment?

**The Convener:** Can I suggest that we invite Leon Thompson to answer that question, as that will mean that all members of the panel will have had an opportunity to answer before we move on to Maggie Chapman?

**Colin Beattie:** Okay. The question was for Marc Crothall, but perhaps Leon Thompson can answer it.

**Leon Thompson:** I am happy to answer it. For a number of months, businesses have been scaling back their operations, whether by limiting the service that they provide or closing their doors for one or two days a week. The issue is one that they have been grappling with for quite some time. I know businesses that have been trying to ensure that the workers they have are still getting the hours, or close to the hours, that they need. However, when businesses are in a precarious situation, there is only so much that they can do.

As Marc Crothall has highlighted, there are businesses that are looking at what else they can do to support their staff. There are good examples of businesses that are providing extra time off for staff so that they can benefit from wellness days. There are also businesses that are looking at how they can be more imaginative with the shift patterns and so on, to ensure that there is still work there for the people they employ.

One of the challenges that we are facing is that, because businesses are in a difficult situation at the moment, workers are beginning to move away from hospitality to look for other types of employment. In addition, some of the costs that workers are facing now, particularly in rural areas, mean that it is quite a challenge and a financial stretch for them to get to their place of employment.

**Colin Beattie:** In my experience, many hospitality businesses seem to be crying out for staff—they are desperate for staff with the skills to fill key jobs—yet, on the other side of the coin, we hear that there has been a reduction of hours in some areas of the hospitality sector. How does that work out?

**The Convener:** Can I ask for a brief response?

**Leon Thompson:** Sure. It is a very broad sector. We need to break it down by geography, because the challenges that some businesses are facing as regards staffing shortages and levels of demand are not necessarily faced by all businesses. However, the general picture is one of diminishing demand and, therefore, fewer hours available.

**Maggie Chapman:** Thank you for your comments so far. I will continue on the same theme as Colin Beattie's questions on job security and job availability. We have heard about the tension in respect of workers wanting hours but shifts not being available. Leon Thompson said that the sector is diverse and that there are geographical and other differences. How is your organisation engaging with your members? What are you focusing on to deal with differences relating to geography and marginality? Obviously, job security does not tell us everything that we need to know.

**Leon Thompson:** We see the workforce as being absolutely critical to the ambitions of the sector. We came out of the pandemic and, as Bryan Simpson has highlighted, we lost a lot of the workforce. A few weeks ago, there were still very high vacancy rates across the sector. We are trying to encourage businesses to pay more in order to attract and recruit staff, and to offer more flexibility around working. There are also issues of productivity: businesses that are struggling and find that they need fewer staff could change how

they work but still provide job security for their workforce.

In the longer term, when we come through the current set of challenges we will need access to a skilled workforce, so that businesses can develop and grow and play their full part in the economy of the country again. However, just now it is a real challenge for SMEs in particular to keep a full complement of staff when they are not seeing demand coming through from consumers.

**Maggie Chapman:** I will move to Marc Crothall, with a similar line of questioning. Leon Thompson has mentioned geographical variations. Can you pick up on variations in size and the differences between what larger organisations are doing and what smaller businesses are doing, specifically on job security? What does that mean in terms of targeted support to ensure job security—not only through the coming season, which will be very difficult, but beyond it?

**Marc Crothall:** I have a couple of things to say in coming back on what Leon Thompson said. In respect of the city centres, we still have huge numbers of people working from home, so there is a culture now of not going out on to the high street. A huge number of small hospitality operators—pubs, coffee shops and so on—have seen a massive downturn in trade, which has resulted in their having to cut their cloth accordingly, in respect of workers' hours. That is another challenge that we face; it is important to have vibrancy in city centres.

There is lots of good activity at the local level, through local hotel associations working together. Inverness is a great example of a place where there are not a lot of people there to come into the industry, so businesses have gone into schools and have worked as a collective to bring raw young talent with no experience into businesses to train them, to give them on-the-job learning experience and to create a community among the workforce.

There is also a lot more being done by Springboard and the broader tourism skills group. We have the apprenticeship in hospitality Scotland programme, which is a great initiative in which a number of large and small operators are supporting apprentices into their business and using that generation of the workforce to be advocates.

We have also seen, with the cost of living crisis, older workers looking for a second income, so we need to position opportunities in employment for the older workforce. As Leon Thompson said earlier, many operators are changing their modus operandi in terms of shift patterns; we are seeing the old traditional ways of working going, and

businesses are adapting to the modern day way of working.

Hoteliers Charter was launched two years ago during Covid to try to present the industry in a much better light, and to highlight opportunities and promote the values of fair work within the business.

I said to Bryan Simpson earlier that on 17 October you will see a UK-wide campaign called "Hospitality Rising" being launched. That has raised nearly £850,000 worth of private sector money from operators to change the perception of the industry and to make the marketing campaign a bit more cool and more heavily targeted at people in the under-30 age bracket. That is the industry taking ownership; small and medium-sized operators are very much part and parcel of that.

**Maggie Chapman:** I will come to Bryan Simpson and ask a little bit about what else Unite is looking for from employers. We have heard about paying appropriately, offering flexibility and so on. What other things could employers look at? What discussions are you having with employers about attracting and retaining people in hospitality, apart from issues around job security? Finally, what kinds of things—this is part of our pre-budget scrutiny—should we require as part of our budget discussions?

**Bryan Simpson:** Job security, particularly in this cost of living crisis, is the number 1 priority for Unite. It is our top priority to ensure that there are well-paid and contractually secure unionised jobs throughout hospitality. That is our modus operandi. We are more than happy, as I said to Marc Crothall earlier, to work with the industry to drive up standards, because we have a vested interest.

Specifically we have our fair hospitality charter, which, I am sure, chimes in a lot of ways with what Hoteliers Charter is doing. The reforms are really simple, and include things like paying the real living wage. It is basically the Scottish business pledge: paying the real living wage; ensuring a huge reduction, if not complete removal, of zero-hours contracts; providing proactive sexual harassment policies to protect women workers; and providing transport home after 11 o'clock at night so that people do not have to pay the £12 that they have earned in tips to pay for a taxi home.

Those are all things that multinational employers in particular can adopt at quite low cost. I am not here to make the benefit points for businesses, but I hope that my colleagues will agree that we would reduce turnover by driving up standards and, without being elitist about it, keeping the most highly skilled workers.



We surveyed over 800 chefs about a year ago, and 48 per cent of them said that they had already left the industry or were about to leave the industry. Again, without wishing to be elitist, they are the most highly skilled and highly trained employees in the industry. Almost 50 per cent of them were leaving. I guess that the figure might have gone up since then; we are just about to get the results of this year's survey.

12:00

On specifically what the Scottish Government can do with the budget, we need another furlough scheme. We need a scheme that will protect workers from the cost of living crisis—possibly with mitigation through Barnett consequential. I am not an economist, but I know that any amount of money that is given directly to businesses or directly to workers needs to be conditional; we cannot have a situation in which huge multinational employers receive hundreds of thousands of pounds in tax breaks or whatever, but are still allowed to fire and rehire. Public money should be conditional; it should be conditional on employers signing the Scottish business pledge. For any money that is given directly to businesses, there must be a conditionality clause that says, "You must pay the living wage and you must retain your workers if you are getting £120,000 in tax breaks or direct financial support." For me, that is an absolute necessity.

**Marc Crothall:** I will wave this document around because somebody asked me to. It says that among the most successful interventions and support that we got from the Scottish Government during Covid was money to support the tourism and hospitality talent programme. That came at a time in the pandemic when many people were out of work and mental health problems were at the highest. We need to continue to invest in and upskill a workforce that has shrunk, to say the least, and will take time to recover.

We strongly recommend on-going investment in skills, so that if there is temporary displacement, or whatever, of an employee, there is a place where they can go and continue to further develop their skill sets. We have a shortage of skills in certain areas, but at the same time there is a proven mechanism that has delivered very positive responses. I think that the 3,500 people who have been through it would be strong advocates for there being more of the same.

**Colin Smyth (South Scotland) (Lab):** Good afternoon. I will pick up the point about labour and skill shortages. For some time now, everywhere I go to speak to businesses I am told that they cannot recruit and that there is a huge labour and skills shortage. Today we are being told that

businesses are cutting staff and cutting and restricting hours. There is almost a contradiction in that; the situation is clearly more complex than there just being a labour and skills shortage. Is it just that everybody is cutting back?

Can Leon Thompson and Marc Crothall say more about the types of business, the sectors and the geography of the businesses that are laying off staff and cutting hours? What businesses are struggling and are in most need of that support? Some are still saying that they cannot recruit at the moment but want to expand, while clearly others are really struggling.

**Leon Thompson:** As we came out of Covid, it was pretty clear that we had a massive shortfall. We were estimating that there would be somewhere in the region of 30,000 vacancies that businesses would be trying to fill across the sector. That has continued and people have gone very far to recruit and retain staff. We have touched on some of the good work that businesses are doing in that space. To some extent, businesses were able to fill the shortages, but the difficulty is that in some parts of the country there is not the working-age population to draw from. That is a major challenge, especially for businesses in rural and coastal locations. That was, obviously, not helped by Brexit.

Businesses were already moving to models in which they were open only some of the time; they were perhaps closing for one or two days or reducing the service that they were offering. Rural hotels, for example, would offer meals and bar service to residents only and would not be open to non-residents. Many businesses are still grappling with the challenges and have grappled with them over the summer, even while there has been demand.

Cities present a different picture. As Marc Crothall said, there is not the amount of footfall and activity in our cities that there was pre-Covid. The business-visitor market has not recovered, but it is crucial for places including Aberdeen and others. While businesses were still trying to find skilled staff, they also did not have the same levels of demand to service.

Where we were in the summer was a mixed picture, but things have moved on massively since then. We are now looking at a situation in which demand is very light, especially for hotels and particularly for those in rural and coastal areas. There will probably be a bit of a drop off there. Cities are still struggling to come back. There will be winter festivals and so on that we hope will attract people to come to visit Scotland. Much of that will be in Edinburgh and other cities. Just now, businesses are not seeing the kind of demand that they need in order to maintain the staffing levels

with which they have been operating over the last few months.

**Colin Smyth:** Does Marc Crothall want to add anything to that?

**Marc Crothall:** On skills specifically, we have lost our language skills set with the departure of our European colleagues; Europe is obviously a big market for us, so we need a blend of cultures in our workforce. We are an international industry and should have a fully multinational workforce to match the needs of customers. Those people are also very important to our home-grown talent, so that they can learn, too. Skills are lacking.

We must not forget the supply chain. If there are breaks in the supply chain we cannot do anything at the front end. There is a need for logistics workers, fruit pickers and all the others that food production businesses have been challenged in recruiting.

I will go back to the development programme. We lost a lot of our middle management—our supervisory staff. In relation to onboarding new raw recruits into the industry, it is very difficult to service guests if we do not have, at supervisory levels, well-placed individuals to onboard recruits into the workplace in the way that we want, such that they stick around and learn. Investment all the way through supervisory management and leadership is key.

We know that we have accommodation challenges in some parts of the country, which limits the opportunity for businesses to retain staff in a downturn. There is a cost associated with that. From the outside looking in, there is uncertainty: the sector's long-term recovery will not fare well if people are looking at careers in an industry that is potentially susceptible to having to slow down or close.

There is a combination of things, but for us loss of language skills is a massive shortfall. We need to have the immigration situation shifted so that we can get international workers back into the system to service customers and so that our own talent can learn from and engage with them.

**Bryan Simpson:** I will give an example, from our perspective, of the antidote to the labour shortage. It will come as no surprise to members that we believe that the antidote is to drive up standards. I will use a rural example. We teamed up with a small 40-bedroom hotel in Dunkeld that had really been struggling post-Brexit and then through Covid, to attract anyone. That was not because it had done anything wrong; it had not terminated any staff, and it paid 100 per cent furlough or topped up furlough to 100 per cent of wages during the pandemic, but it was still struggling to retain staff. We teamed up with it and eventually, piece by piece, we got it incrementally

to implement the fair hospitality charter. The final thing in that was its paying the real living wage: it started paying £10.50 an hour and within six weeks it had filled its labour shortage. We helped to advertise it. It was top story news on STV, because we want to advertise decent employers.

The employers that are doing the right thing, that are paying the real living wage, that are not terminating people unnecessarily and which are putting in place proactive sexual harassment policies happen to have the lowest turnovers and have been able to fill gaps in employment. That that example is replicated in so many places, particularly in rural Scotland, speaks for itself as the antidote to the shortage.

**Colin Smyth:** That is very interesting and really helpful in trying to break down the challenge in labour and supply chains. It is clearly very complex, because, as you mentioned, a lot of businesses are on the brink—especially in hospitality, and even the licensed trade is really struggling. That is having a big impact on your members, who are seeing their hours cut.

You also mentioned that some businesses, particularly large businesses, are very much profiteering from Covid and the cost of living crisis. I know that Unite has done quite a lot of work on that. It has been highlighting that there seems to be price gouging by big businesses whereby they are driving up prices above the supply cost, and that, in turn, is spiralling inflation. Can you say a little bit about the work that you have done on that and about the impact that that is having on the cost of living?

**Bryan Simpson:** Yes, absolutely. Again, it is not focused just in multinational hotel chains, but that is where we see the biggest examples of that. For example, most accommodation services increased their prices for the 26th UN climate change conference of the parties—COP26—but multinational employers were charging £500 or £600 per room per night, and none of that extra profit was going back to the workforce. We used that price increase as an example in campaigning for higher wages. None of it was trickling down to the workforce.

In fact, the hotel in question—you do not need to do too much research to know which I am talking about; it is a five-star hotel in Glasgow—was charging as much as £700 per night but still had housekeepers cleaning those rooms on £7 and £8 per hour. Some of them are still being paid youth rates, so they were being paid below the minimum wage. Unfortunately, that is perfectly legal. The employer was not breaching the National Minimum Wage Act 1998, but that is an example of the workers who were cleaning those £600, £700 a night rooms having no increase in wages whatsoever. They actually had their hours

cut, and some of them had their hours cut to zero—they were put on zero-hours contracts.

That was going on during the pandemic. It is still going on during the cost of living crisis, and, unfortunately, it happens to be the employers who could afford to pay a bit more. We are not talking about small businesses. Yes, there are small businesses that have had to let people go and have cut hours. I cannot speak for every example, but, by and large, the employers who are doing this to the most workers happen to be those with the deepest pockets.

**Marc Crothall:** You will probably be aware that there is a fair work inquiry into the hospitality sector, which we are all very involved with, and we are delighted to be part of that.

On the point that Bryan Simpson makes about real living wage employers, there is a vastly increasing number of real living wage employers in the industry now, and probably many more that pay above that but do not necessarily declare themselves. The new Virgin hotel in Edinburgh, which has 225 rooms, is a real living wage employer. Mercat Tours and Rabbie's Tours are great examples, as their staff are very much in situ, retained, and the attraction is there. One of Scotland's most well-known hotels in the central belt has also paid way above the base wage.

For the sake of 50p an hour more from another type of business in a different sector, individuals are leaving to chase that money, because they need the extra 50p an hour to combat the rising costs that they face in their own homes. We are all fishing in a small pool and every sector of the economy is chasing that person, and as little as 50p an hour is a point of difference.

**Gordon MacDonald (Edinburgh Pentlands) (SNP):** I want to ask you about the impact of the cost of living and what the outlook is. Leon Thompson, you touched on the fact that hospitality is a very broad area that covers pubs, restaurants, cafes, travel and tourism businesses as well as entertainment venues. The cost of living crisis is reducing the amount of leisure spend that people have. Is it having the same impact across all the different areas in the hospitality sector or are some benefiting?

12:15

**Leon Thompson:** Again, it is very variable. Pubs and restaurants are seeing a general decline in footfall. They are also seeing a decline in spend, with people spending less money while they are in the venues. People appear to be going out less often than they were before, which is understandable, given that people are looking at their personal finances and working out how they will make things stretch. So, hospitality is very

much on the front line when it comes to people scaling back on their discretionary spend.

We are starting to see, through bookings for hotels, that people are scaling back on mini-breaks and weekends away, which have obviously provided a lot of business to hospitality over the years—particularly to hotels and other forms of accommodation. We are starting to see that spend being scaled back as well. It may be that people will continue to ring fence a two-week holiday, which means that it will be absolutely vital that we encourage people to holiday in Scotland—people who are residents and people from the rest of the UK—as well as going after the lucrative markets that Marc Crothall highlighted.

We are seeing a gradual downturn in spend. People still want to have a good experience—they still want to go out—but it is becoming increasingly difficult for businesses to provide that experience at the price point that people are looking for. Therefore, businesses are absorbing a lot of the additional costs themselves at the moment, which is completely unsustainable but it seems that they need to do that to keep their customers coming.

**Gordon MacDonald:** There was a suggestion that, in the summer just past, there was a large increase in the number of staycations; so, people might have been spending less, but there were more of them. That was partially due to the weak pound making foreign holidays more expensive, travel disruption and so on. What impact did staycationers have on businesses, and did Scotland get a share of the estimated £26 million from staycationers?

**Leon Thompson:** In Scotland, we are very fortunate in that we are able to attract a variety of visitors from the rest of the UK and internationally as well. The staycation market has been absolutely crucial, particularly over the past few years. The issue is that people spend less when they come, which is a major challenge. Although we had a strong domestic market, we saw a lot of people going out as well. They were prepared to brave the queues at the airports and head out for their two weeks in the sun, particularly after two years of severe travel restrictions.

The domestic market has been and is key. A lot of businesses cannot pivot very easily towards the international market, so they rely on the domestic market. That is their real bread and butter, but it is the international market that is particularly lucrative. As we go further into the cost of living crisis, it is becoming more apparent that the UK is being affected perhaps to a greater extent than other countries. So, we will probably see the domestic market tailing off, particularly for those shorter breaks, but we will see more interest from the international markets, particularly with the

pound being weak. It is absolutely vital that we chase those key markets.

**Marc Crothall:** I think that the secondary spend is huge for the domestic market. Looking at the broader tourism industry, when people go to visitor attractions or wherever—even resort hotels where they are paying for extras—if they go as a family, one of the reasons that they go there is that their kids want to do X, Y and Z. If, all of a sudden, they cannot do that, they probably have a bigger challenge with their kids biting their head off than with not going there, so people choose not to go.

There is a lot of evidence of people now taking a picnic and driving to the great outdoors, which is fantastic. We are seeing that self-curation of people's holidays—the bottle of wine has become the glass of wine—and there is competition with other activities for those little extras. There is the return of the football season, for example, and we have had an amazing season of outdoor live music. A lot of that has been thanks to Covid, in some respects—for example, because of the backlog of touring artists. I think that Geoff Ellis sold more than a million tickets to concerts over the summer season. They are not cheap, and people are making a commitment to a bucket-list type of experience, which then puts something else on the back burner. The cost of physically putting petrol in the car and travelling from A to B is also a consideration. The compound effect of all of those things is that people are now thinking twice.

We knew that the outbound tourism spike would happen. The people we captured were probably the ones who saw the chaos in the airports down south and had not made a commitment yet, and, thankfully, we were able to support them. The golf tourism season was phenomenal, with the amount of golf that was played in Scotland, but a lot of that was overhang as well. I do not think that we have had a true picture of the real numbers this year. A survey that the Association of Scotland's Self-Caterers has published today shows a significant slowdown in bookings, and they are mostly last-minute decisions, with more couples than families as well.

The one market that has come back quite well is the coach market. A lot of tourers from the older community were able to have their confidence about travelling in that way restored, but they do not spend a lot.

**Gordon MacDonald:** How is the industry planning going forward? Does it imagine that the constraints on consumer spending will be on-going for a long time, or is it hoping that the situation will change in a shorter time? What impact will that situation have on the industry?

**Marc Crothall:** As a sector, pre-Covid, we were around 65 per cent dependent on the domestic market, anyway, and 35 per cent dependent on the international market. I think that we would all say that it is absolutely critical that we have a much upweighted international footfall and that we capture the opportunity while it is here by increasing the routes and the connectivity. We have seen a pegging back by the middle-eastern carriers. We need to restore that connection, and we obviously need to capitalise on the US market.

The Ukinbound conference took place last week in Aberdeen, and the operators that were there would tell you that there is demand. Scotland is a very attractive destination, but we have to shore up the quality of the assets that are here and make sure that the infrastructure and the transport routes are absolutely rock solid. As you know, Tourism Ireland invested €80 million in its international marketing campaign to make sure that it maintains its profile. There is our competition—it is not so far away from here.

Going back to the convener's first point, on the recovery, we must invest in growing our international footfall, as the average spend is about £650 for an international tourist compared to £150-odd for someone from the domestic market. That will increase footfall and allow reinvestment in the product.

**The Convener:** I will bring in Fiona Hyslop. We now move to questions that are more focused on pre-budget scrutiny, and we will be looking for suggestions about the budget statement in October and the committee's work in the area.

**Fiona Hyslop:** You have just asked my question, convener.

**The Convener:** Sorry.

**Fiona Hyslop:** We are getting down to brass tacks, looking forward to the budget for 2023-24.

Thank you for your written evidence. You have set out clearly what your asks and expectations are. We understand from the Chancellor of the Exchequer that there are likely to be departmental cuts at UK level. We do not know what that will mean for Barnett consequentials—that will depend on which departments are involved—but, this year, we are very likely to face a budget that is tighter than previous budgets.

What would you prioritise to be kept? The question is not about additional spend; it is about prioritising keeping in the budget what is important to your sector that is already there.

**Leon Thompson:** On what is already there, we have talked a lot about the need to keep promoting Scotland as a leading destination, so I think we need to keep the budget for VisitScotland high, as it promotes both the country and

destinations around the country. That is absolutely key and critical.

We need to keep investing in infrastructure as well. We obviously have significant challenges with some of our transport. I know that members on the islands have had a pretty torrid time of it. We need to be able to turn that around for them and for communities there, so investment in ferries is absolutely key. We need to continue to look at spreading the benefits of tourism and hospitality around the country; rail and bus services are absolutely key, critical and vital as part of that. I think that we should be looking at whether there is a possibility of turning on the tap for a bit more investment in those areas.

We have talked a lot about people. Ultimately, when we come through this crisis, it will be about having the right people come into the sector to deliver the great experience that visitors and guests are looking for. We will certainly be looking to the Scottish Government to continue to invest in activities that support tourism and hospitality, pushing for a greater awareness and understanding of the great jobs and careers in the sector and encouraging people to actively come into the sector, as well as helping us to upweight some of the skills activity for people who are currently in the sector. I see those as priorities.

**Marc Crothall:** It is great when we double-act and we have a council that comes together to develop the same pre-budget positioning.

Without question, we have to maintain our position as a competitive destination that is attractive to visit. We also need to create the enablers for people to get here, and infrastructure is critical.

The “Scotland Outlook 2030” tourism and hospitality industry leadership group, which I have been invited to co-chair with Ivan McKee, is about to reform itself with a new membership. It will kick off towards the end of this year, and I guess the priority actions for that group will come out, but I do not see them being any different.

We have to make sure that VisitScotland’s budget is not compromised in any way and that it can continue to do what it does very well. On top of that, there is the destination net zero agenda and how businesses transition to their green agenda. We need to have the right support networks in place to support the industry to do that. A lot of investment is being made by the larger corporates, but some of the smaller operators are struggling to do that and to set out where they will go next. Investment in a skilled workforce continues, along with the national strategy for economic transformation agenda and, I guess, community wealth building. “Scotland

Outlook 2030” is all about spreading tourism wealth and how we make that happen.

It is difficult. The budget is very, very tight—we know that—but I think that we would ask that the Government see the sector as a force for good that drives a multitude of benefits through local economies. The one thing that Covid did favourably for the sector is that, when it stopped, there was a much greater recognition of how important tourism is to local communities and how many livelihoods were impacted by its not happening.

I have said to Ivan McKee and others that there is a lot of talk about future industries, but we have been around for a long time, as an industry, and people will always eat, drink and want to have a holiday. The impact that tourism delivers as a force for good should not be underestimated.

**Fiona Hyslop:** If it reassures you, the fact that the Economy and Fair Work Committee is focusing on tourism for a second time perhaps reflects our understanding that it is a national industry that is one of the few that reaches all parts of Scotland.

**Marc Crothall:** We have always said that we are very fortunate and grateful for the fact that the Scottish Government recognises the importance of the sector to the economy. We are probably the envy of our colleagues south of the border and elsewhere.

It is about investment in the asset and, going back to the vibrancy of cities, how we bring the buzz, the culture and the lifeblood back into communities—as much for the wellbeing of society. There is a real need to stimulate a lot of jobs, too. We can recover quickly, given the right ammunition. However, we need the investment to pump prime the larger operators—the businesses that are really ambitious. There is a lot of entrepreneurship in the industry, and there have been some great examples of small, medium and large-scale entrepreneurship having delivered. They have ambition and they want to grow. We want to encourage that collaborative approach and to continue working in the way that we have worked previously, over the years.

12:30

**Fiona Hyslop:** I will come to Bryan Simpson: What would you expect to see in the budget? If you want anything new, you might have to say what you would prefer not to have. Do you think it is more important to keep some of the good, progressive policies that are already there to help in the skills sector or to make progress in different areas that we have heard about in previous evidence sessions? Or is there something new that needs to be done? What is missing from the

response so far, not just from the Scottish Government but from the UK Government as well?

**Bryan Simpson:** I need to separate the two Governments, because my criticism is more barbed, shall we say, for the Westminster Government. In Scotland, the one thing that we need to put more financial and physical, logistical resources into is increasing the focus on fair work and encouraging employers to sign up to the fair work principles—the business pledge. To be critical for a moment, I do not feel that fair work is as interwoven in our discussion around business growth and economic success as it could be. I feel sometimes that fair work is tagged on at the end. More money, more resources and more time, with ministerial buy-in for fair work, need to be put in across the piece.

I totally agree with Leon Thompson about investment in infrastructure. We need better trains and buses to enable the workers to access rural employment or workplaces, as well as to enable the customers to get there.

I have completely lost faith in the British Government's willingness to support not only small businesses but the lowest-paid workers in the British economy instead of giving tax breaks to the richest people in society. As Leon Thompson said, the average small business will gain about £10,000 from the NI cut, and the average hospitality worker will gain about £200. Therefore, the actual benefit to them from the so-called changes or improvements that are being made at a British level will not touch the sides.

In Scotland, it is about focusing more on fair work, making sure that it is completely interwoven and genuinely resourced across the Scottish economy, and not just in hospitality—retail is crying out for it as well. I also agree with Marc Crothall about community wealth building. That is an important way to get more bang for your buck by putting an amount of money into the hands of citizens who will spend it a lot better, frankly, than some politicians would.

**Marc Crothall:** Whatever is done, it needs to be meaningful. A lot of the time, the challenge is that, although the level of support in some cases has been great to have, it has not allowed businesses to make transformational change or invest in order to have real impact. Clearly, business rates are the biggest lever that it is within the gift of the Scottish Government to consider using. However, going back to the idea of being competitive and staying competitive in the modern world, the investment needs to be of a size and scale that is meaningful in enabling businesses to make that change.

That investment could be made through balancing different fiscal measures or otherwise,

but the intent is there among many. The aspiration is certainly shared by the industry collectively, but it has to be done at a scale that enables businesses to stay viable and open in the short term.

**Fiona Hyslop:** There is an important message there. There is value in having something that provides a sustainable sector for individuals in the workforce—which has a knock-on effect on retention, which has a cost value itself—and that provides investment in growth instead of addressing just the short-term, immediate issues around energy costs. If there were Barnett consequentials—it is not obvious that there will be—in the business sector area, would business rates be your priority?

**Marc Crothall:** Yes, they would be our number 1 priority, along with having no state-aid cap, because a lot of the larger businesses might well go over the tipping point because of business rates. There would have to be a caveat that some of the large businesses would not be excluded from being able to take advantage of a relief of that type.

**Fiona Hyslop:** Thank you for your very direct but also thoughtful responses.

**The Convener:** We have had one statement from the Scottish Government about this year's budget. Within the budget that the committee is responsible for scrutinising, a saving in the region of £50 million has been made in the employability line. That has been partly to fund the Scottish child payment, so it is a decision that the Government has made. In correspondence with us, it has explained that, given the high employment rate at the moment, it feels that it can take some savings out of that budget line.

Bryan Simpson, do you have a view on that? The Government is not denying that it will have an impact, but it says that the impact should be minimal, because there will still be money in the employability budget although £50 million is coming out of it. Do you have any concerns about the impact of that?

**Bryan Simpson:** I have concerns over that, as £50 million is a huge amount of money that, to be frank, is well spent by organisations like Skills Development Scotland. We work hand in hand with Skills Development Scotland to get some of the 58,000 people who lost their jobs—Marc and I mentioned them earlier—back into much more sustainable employment. I imagine that that will have a massive impact on skills development and the employability resources that are there, and I think that taking money from other areas of the Scottish economy would have less of an impact on the workers who need it the most.

**The Convener:** Thank you. That brings us to the end of the session. I thank our witnesses very much for sharing their experience and expertise with us this morning.

We will now move into private session for the remaining item on the agenda.

12:36

*Meeting continued in private until 12:56.*





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