OFFICIAL REPORT
AITHISG OIFIGEIL

Economy and Fair Work Committee

Wednesday 26 October 2022

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Wednesday 26 October 2022

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ECONOMY AND FAIR WORK COMMITTEE
23rd 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:

Euan Clark (Scottish Building Federation)
Ian Laird (Scottish Textile Industry Leadership Group)
Paul Sheerin (Scottish Engineering)
David Thomson (Food & Drink Federation Scotland)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy and Fair Work Committee

Wednesday 26 October 2022

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Claire Baker): Good morning, and welcome to the 23rd meeting in 2022 of the Economy and Fair Work Committee. There are no apologies from members, but Fiona Hyslop and Michelle Thomson are attending remotely.

Under agenda item 1, I ask whether members are content to take items 3 and 4 in private.

Members *indicated agreement.*

Pre-budget Scrutiny 2023-24

09:31

The Convener: Our next item of business is the second cost crisis evidence session as part of the committee's pre-budget scrutiny work. The purpose is to inform the committee's pre-budget scrutiny work with the aim of influencing the budget before spending priorities for the next financial year are decided on.

I welcome to the meeting Euan Clark, the commercial director of the Scottish Building Federation; Ian Laird, the chair of the Scottish Textile Industry Leadership Group; Paul Sheerin, the chief executive officer of Scottish Engineering; and David Thomson, the chief executive of the Food & Drink Federation Scotland. David joins us online. I thank the witnesses for joining us.

We decided to look at the cost of doing business as part of our budget scrutiny, but that was more than 45 days ago and quite a lot has happened during the past 45 days. Our reason for that was high energy costs and recognition of the fact that your sectors are high energy users. Has the response from the Governments been sufficient for you to cope with the rises that you have seen? Does there need to be further action by the United Kingdom Government, in particular, which has come forward with measures on energy use?

Euan Clark (Scottish Building Federation): Support for the construction industry has probably not been as good as we would have liked. We have made approaches during the past few months. We were encouraged to do that, and the early mood music suggested that we would get some support over time, but that has not found its way through to us. Although odd bits and pieces of support have come through, we are probably looking for more.

The difficulty for our members comes from the way in which contractual arrangements are set up and how support would find its way to contractors and down through their supply chains. Any building project will, ultimately, be bound by a contract, so we need to consider how support finds its way down through the supply chain when the mechanism to do that is not necessarily there at the moment. We have made moves to get some additional support, but we have not yet found as much as we would like.

The Convener: Do you mean that the way in which the support for businesses that has been announced, such as support with energy costs, has been designed does not benefit your members?

Euan Clark: It does not. Energy costs have more of an indirect effect on the construction industry and on our members. We do not have huge energy usage at our premises; we heat and power our premises and the building sites that we are on but, beyond that, the costs are indirect, as they come through our supply chain from the manufacture of goods and products. Energy costs affect suppliers and that results in increased costs for our members. That goes back to what I said about contractual arrangements and how additional support gets to us. Increased energy costs mostly affect us indirectly, because all that we are doing is heating and powering premises.

The Convener: The committee did an inquiry into supply chains, on which we will take evidence from the minister in the next couple of weeks. Earlier this year, we considered some of the issues that you have identified, but we recognise that the pressure is probably greater now than it was at the start of the year.

Euan Clark: Yes. It is not as bad as it was, but we are still at a level that is greater than that for which many of the projects were priced. Our members have had to absorb additional costs while we wait for the outcome of the further discussions on how that support finds its way down to the membership.

The Convener: Have energy costs had a big impact on the textile industry group?

Ian Laird (Scottish Textile Industry Leadership Group): Yes, absolutely. Energy costs impact on a couple of areas because, as a manufacturing sector, we employ many people—we are labour intensive rather than capital intensive—and part of the concern is about employees, skills and labour costs. At least the commitments that were made—even if only for six months—to help consumers through the winter alleviate some of the pressure on our employees' living costs, which would have flown into pressure on wages. That initiative—albeit that it lasted only six months—has a benefit.

However, in terms of direct support for business, it is not enough, especially as we are an export sector. We produce a lot that goes overseas, so we are competing with countries that have various other initiatives in place. France has state-owned energy and its level of subsidy is much greater, so it is seeing no more than a 10 or 15 per cent increase in costs, and other places, such as Italy, have different frameworks and models through which they can look at their energy costs. Our level of cost impact will be worse than in those countries. Further afield, countries in Asia are not really noticing the same level of increase in energy costs. As an exporting sector, with those global pressures, we could do with more support on energy costs.

The Convener: The committee is looking at the cost of doing business. What are the factors that drive that cost up for your members, Paul Sheerin? Is it energy, or are other factors more significant?

Paul Sheerin (Scottish Engineering): There is a broad blanket of costs that have been rising—you will have heard previously at the committee about materials, logistics and people costs. Energy costs are the right ones to focus on, because their impact is not evenly spread.

You talked about what has happened in the past 45 days. Forty-five days ago, one third of our member companies told us that they thought that they were at risk of having to either reduce staff or go out of business, because they were facing energy cost increases of an average of 3.6 times—and, for some individuals, up to 10 times—their current energy costs. Although the cap has helped, it brings costs down to an average of a two to three times increase. The total costs of energy-intensive manufacturing can be made up of up to 50 per cent energy, so you can imagine the impact for those businesses.

There is something to say about timing. Increases in all those other costs—materials, people, logistics—were generally spread evenly; people felt them at the same time, although the largest companies, which could use volume scale to get slightly better pricing, maybe felt them a bit less.

With energy, 45 days ago, at the beginning of September, 48 per cent of our companies had experienced a change since energy costs had started to go up, but 52 per cent were still to experience it—when we talked to the latter, those companies had contracts until later in 2023 or even 2024. We have a few companies that have lucrative contracts in place until 2025. From a competitive point of view, those companies that, by dint of bad luck in timing, had a change in their energy contract, are at a significant competitive disadvantage to those that, just by good luck, have an energy contract that lasts longer.

I reflect on what Ian Laird has said about our competitiveness on energy against Europe, which is our closest neighbour as a competitor and a customer. We are just falling further from where we were. We were second bottom of the European Union 14 in quarter 1 this year and that gap has only widened since.

The Convener: David Thomson joins us remotely. Do you have anything to add to that, with regard to how your sector is coping with the increases in the cost of doing business?

Please can we have Mr Thomson's mic on?

David Thomson (Food & Drink Federation Scotland): It is on now. Thank you. I apologise for not being there in person. Food and drink manufacturing accounts for 26 per cent of the Scottish manufacturing workforce. We employ 47,000 people. However, 95 per cent of the businesses in the sector are small and medium-sized enterprises, so we represent lots of small businesses across the whole country. Of course, energy is a major part of those businesses. When you are baking biscuits or brewing, you need a huge amount of energy. We are very energy sensitive, and—[*Inaudible*.]

I will reflect on others' comments. In particular, I agree with what Paul Sheerin and Ian Laird said. There are significant issues, because companies were facing price increases of five, six or seven times what they had been paying. That has gone down to two or three times what they were paying, but it is still a significant increase, if people are coming to the end of contracts. Therefore, there is still a lot of additional cost to businesses, even with the Government support.

I must say that we were very encouraged by the United Kingdom Government's support. It has made a huge difference and removed a lot of uncertainty, at least for a period of six months, so that was a positive development that we did not think would necessarily come to pass. There are still edge cases—similar situations to what Euan Clark set out. For people who are off grid or who use different sources of power, the details are not yet clear. We know that the Government is having a review. BEIS has put out a questionnaire for businesses on the costs and what they would like to see beyond the six-month period. They have given people only a week to respond, which is an incredibly short time. Of course, we have advised our members to ensure that they have all the data and evidence. One of the things—

The Convener: I am sorry, Mr Thomson, but who did you say had issued the survey?

David Thomson: The UK Government Department for Business, Energy and Industrial Strategy.

The Convener: The UK Government.

David Thomson: Yes. The survey is part of its consideration of what should happen after that six-month period. Obviously, we will make the case for future support for the food and drink industry, because of that energy sensitivity and because we need businesses in business to keep the nation fed. We also make that case because, for some food and drink businesses, in the summer, although the cost of heating goes down, the cost of refrigeration and freezing goes up.

Support is also needed for people. As I said, we employ 47,000 people, so that assistance has helped in two ways: it has helped many of the manufacturing workforce, but it has also reduced some of the pressure on businesses, particularly at a time when they are trying to match increased costs of living to ensure that people are properly rewarded. Therefore, that assistance has been really useful.

As the other witnesses have said, there is a range of other costs involved in doing business: raw material costs, labour costs and the costs of policies that have an impact. I am sure that we will discuss that during the evidence session.

The Convener: Thank you. Mr Thomson mentioned UK Government surveys. The Scottish Government is undertaking an emergency budget review and statement is due in Parliament quite soon. It brought together an expert panel. Has there been any consultation with the expert panel or the Scottish Government about what needs to be done to support businesses? Comments were made that the 2022-23 programme for government was quite light in terms of business support. It mentioned the small business bonus scheme, which we have had for a while, and it referred to having the lowest poundage, but it did not contain any new announcements. Has there been any consultation with the expert panel or the Scottish Government? I know that we are working to tight timescales, but has there been any discussion?

Euan Clark: Are you talking about support for energy specifically or support more broadly?

The Convener: I suppose that I am thinking about both, actually. The expert panel was advising the Government on the budget review, so have you had an input to that process?

Euan Clark: To go back to what I said originally, we had some formal discussions in April this year. A few of our members and non-members—other contractors—were represented in discussions at the Parliament at which Shona Robison and Ivan McKee among others were in attendance. We set out our case about how, at that point, rising construction costs—of which energy is clearly a part—were hitting our membership. We have certainly had the opportunity to have such discussions.

09:45

The Convener: That was in April.

Euan Clark: Yes.

The Convener: Has anybody had more recent discussions in relation to that?

Paul Sheerin: Considering the fact that the macro-level support, such as the energy price cap for the next six months, is reserved, probably the most useful measure has been the business energy support—I think that I have got the name right for that scheme. It has been heavily promoted and we have been sharing it. Many companies are, as you would expect, looking for ways to reduce their energy usage, so I point to that programme, which SMEs have actively taken up, as being the most appreciated.

Ian Laird: I am not aware of the consultation that was referred to.

The Convener: That is helpful. Thank you.

Graham Simpson (Central Scotland) (Con): I will ask David Thomson another question about the survey. Is it directed only at the food and drink sector or is it wider?

David Thomson: It is wide. It is for all businesses, as far as I am aware. It is being run by the Department for Business, Energy and Industrial Strategy in the UK Government but is being promoted by other UK departments. It came out only late on Friday night and the responses are due by midnight on Sunday, I think.

Graham Simpson: So it is not just for the food and drink sector.

David Thomson: No, and it is a questionnaire.

Graham Simpson: Euan Clark, you said that there was not enough support, but you did not expand on what kind of support there was not enough of. Will you do that now?

Euan Clark: I suppose that I was referring principally to financial support, such as assistance with additional costs. We have all seen that the issue goes way beyond the construction industry. The source of it is that labour costs more, materials cost more and it costs more to make goods and build things as a result of that. It is fair to say that, contractually, we have not had support for those additional costs in the past year or two.

Graham Simpson: Are you asking the UK and Scottish Governments to give your sector cash?

Euan Clark: Yes.

Graham Simpson: But not specifically for energy.

Euan Clark: No, the request is not specific to energy. Energy is a part of what has led to additional costs. If you manufacture goods or supply anything, energy is a part of the increased costs, although there is a lot more to it. In April, we had the discussions to which I referred to reach out and try to find a way of getting some additional support. It was not an absolute no—we were not rejected out of hand—but the discussions continue and evidence is being presented while we try to find some common ground because, in some forms of contract, there is no mechanism for that additional support.

Graham Simpson: Ian Laird, from the textile sector, made the same point.

Ian Laird: I did. I suppose that we are all facing the economic challenges. Those will hit us with inflationary costs and we can try to have conversations with customers about the right level of costs to pass on.

Many of the companies are living wage employers, so that means that they face a 10 per cent increase in cost next year. That is fairly fixed. We then have the rising energy costs. If they rise by a factor of two or three, that is significant. With global trade, we have transportation costs, energy costs and supply chains. All our input materials are going up in price. For us, that is compounded by a fall in the exchange rate, because commodities are traded in dollars.

In theory, we might get a benefit from exporting, but there is just the pressure on costs. When we have cost conversations with customers, they want to see a breakdown to show why we are getting these increases, what we can do to minimise our labour and what we can do so that there is a productivity challenge, which is fair. However, overseas customers tell us that they are not seeing other companies' energy costs go up by as much. They ask why we are saying that energy is going up so much when that is not the story that they get from France or Italy.

Graham Simpson: I think that Paul Sheerin made the same point.

Paul Sheerin: I did. I echo what David Thomson said. We really appreciate the UK Government stepping in for energy and without that we would be in a really tricky situation. Equally, it is important to understand why the shortening of the period to six months is a critical consideration. The survey is part of that and we have pushed that out strongly to our members, to say that they need to fill it in and get their voice out there.

The reason why one third of our companies are saying that there is a risk that they will be unable to sustain the business is that they have orders that they took in good faith, based on a forward assumption of what energy costs might be, and now they are looking at increases of up to 10 times that assumption. Smaller enterprises—we think that the cut-off point is less than £15 million in revenue—are being told that they will not be offered a contract but will have to pay the spot price. Not being able to plan is the absolute cash risk for company directors being able to act responsibly and consider whether they can sustain the business.

Graham Simpson: I think that the three of you have answered this question, but what would you look for from a UK or Scottish budget? It basically comes down to more money. I saw David Thomson nodding quite vigorously while Paul Sheerin was speaking. Do you want to come back in, David?

David Thomson: I often agree with Paul, which is why I nodded vigorously there. Businesses need long-term stability. The six months is incredibly welcome, but if that were pushed further, it would be even more welcome. We understand the issues with the amount of money that is available and the pressures that both the UK and Scottish Governments are under, so we do not expect any special favours. That incredible level of support has allowed businesses to plan with surety. Those long-term contracts are crucial. For example, in the food and drink industry, there will be people who are beginning to put together quotes for Christmas next year. That long-term stability and clarity on the costs allows people to price appropriately, which means they do not lose business and they do not lose their company if the price rises.

Colin Smyth (South Scotland) (Lab): I want to turn to the issue of your workforce. You all represent sectors that are very labour intensive, and the staff of the members that you represent will be feeling real pressure at the moment, in the same way that your businesses are feeling the pressure. What impact is that having on businesses? What level of wage demands are you getting at the moment? To what extent are your sectors able to meet those demands? Can you say anything about the ways in which your businesses are supporting the workers in your sectors?

Paul Sheerin: Such issues have been front and centre in the minds of businesses. In our industry, consideration of them goes hand in hand with the skills crisis in Scotland, which I am sure the committee has discussed before. It is a numbers thing: we do not have the volume of people necessary. There are low numbers of 17-year-olds and of everyone else. I do not think that we quite understood the benefit that we got from free movement of people. That ripple in the carpet has reached the edge of the room quite rapidly.

Companies understand that, in a high turnover labour market, losing staff makes delivering full order books deeply difficult, but replacing staff is even harder.

We have seen a good approach across the sector. People have taken innovative approaches, such as offering salary increases plus cost of living payments. That does two things: it helps people out, particularly as we go into winter, but at the same time it does not put a burden on the business through input costs, which, if they came down, would make the business uncompetitive and therefore unsustainable. There have been examples of some of those increases being flat increases, which means that, proportionately, the highest increase is for those who are the lowest paid in the organisation.

I think of the phrase “hunger makes good kitchen”—companies are really aware of the value of hanging on to staff. There have been some really good examples of companies trying to adapt to ensure that they do just that.

Ian Laird: I echo a lot of what has been said. The biggest single concern in the sector is probably about skills. On demand, despite the economically challenging situation, many companies in the sector have good order books and are getting back to pre-Covid levels of sales and business. The key challenge is fulfilment and delivery of that. Companies understand the importance of retaining and attracting people with the right skills. The Covid period has led people to make different choices, which has led to a loss of skills from the sector, and getting people into the sector and trained up at the rate that we need has been hard.

We still struggle with that. Recently, we invited 12 people along to a panel for apprentices, but only six of them turned up. We offered apprenticeships to three of the six and one who was due to start this week has not showed up. From a pool of 12, we have only two apprentices, whom we hope will show up. We are also paying the apprentices a living wage rather than an apprenticeship rate. Trying to get skills into the sector is a big challenge. The challenge is magnified by issues relating to the movement of people, which has had an adverse impact on us. A key challenge relates to skills.

Another challenge relates to the current workforce, which has been through a hard two years and a lot of uncertainty. The economic pressure is hard on them. We are seeing a lot more issues to do with mental health and mental wellbeing. We are doing a lot more to provide support around the workplace, perhaps through mental health first aiders or by bringing physiotherapy and activities like yoga on site. Looking after the employees we have and supporting their wellbeing is now of much greater importance to our businesses, because we cannot afford to lose good people and we cannot replace them at the right rate.

We also want to do the right thing by supporting people through this time. One of the pressures is the economic one. We need to look at the increase in the living wage, which might be 10 per cent. If we do not move up the other salary bands correspondingly, there will be an erosion of skills. If we lose a skilled person because they can make the same money stacking shelves in Aldi and that suits them better, we lose their skills, too.

We support the fact that Scotland is driving better wages for people in business and, as sectors, we are all trying to attract and retain people, but we cannot just compete with one another. If we take from engineering and engineering takes from food and drink, it is a kind of merry-go-round. We need to elevate the skills and the attractiveness of the jobs. The key challenge is how to get into work people who are not adding economic value and are not in work. That might be people with autism or other characteristics, or people in prisons. It is a societal challenge. We need to be more creative in how we get people to contribute, because we are short of skills.

Colin Smyth: That is a very good point.

The Convener: In the budget, there is a proposed reduction of £53 million in the employability budget for this year. That money is focused on those who are furthest from the labour market. The Government has justified it by saying that the labour market is tight and that people are not short of employment. However, it would reduce the services available to the harder-to-reach members of the workforce. Do you have any concerns about that?

Ian Laird: It is important that we support people into work and support the skills for doing that. We have had some success in textiles. For example, a company called ACS Clothing in Eurocentral has been very good at taking on autistic people who have special skills. We can use those characteristics to get them into employment, but that takes support, because there might not be the same productivity in the early stages. Some support is available, but it is constrained by the need for there to be a commitment of at least a year, and businesses, particularly seasonal ones, do not necessarily have a year's visibility in order to make such a commitment. We would welcome more agility in working in partnership and in creating the right workplaces in which we can create that useful employment, because we can get those people to be productive and to add value to our businesses.

10:00

Colin Smyth: That is a really important point, because there is a huge group of people out there who could make a huge contribution to businesses such as yours but who need support to get into them.

I will not touch too much on skills and labour shortages, as one of my colleagues will probably ask about that issue, but I wonder whether Euan Clark can say something about the support that his sector is able to provide at the moment.

Euan Clark: I very much echo what the other guys have said with regard to how the situation affects us and the opportunities to get people into the industry. It has been difficult to keep people employed—we do have a workload, but it has been difficult to get projects started on site for our members. As construction costs have increased, it has been taking a wee bit longer to get things into production.

Colin Smyth: Have you seen a reduction in the number of projects as a result? The public sector, for example, will have only so much to spend. Are fewer schools being built at the moment?

Euan Clark: No, the projects are still there. However, as time goes on, construction costs are increasing. Whether we are talking about housing, schools or healthcare projects, there will be set budgets or affordability caps. More often than not, a project will come back over budget, which will send you on a whole different journey of making it affordable through, say, making savings, value engineering and so on. When that happens, it becomes difficult to retain your employees and your workforce, because you do not have places for them to go and be gainfully employed. That, too, leads to inefficiencies in how you operate economically.

The situation is difficult. I think that we all saw an exodus after the initial lockdown during the pandemic. In fact, one of my colleagues referred to it as an over-50s exodus. Perhaps because of a change in mindset, people looked inward and decided that, while they had the opportunity, they wanted to do something completely different instead of working on a building site. We lost a number of operatives that way, and it is difficult to replace that sort of thing with a meaty apprenticeship programme—which I think we will come on to discuss shortly—when you do not have any surety about when the next tranche of projects will start or when you can create opportunities to bring people in and get them started.

It is difficult to attract apprentices, too. We all go to employment fairs and try to attract new people into the industry, but we are finding that the numbers and the enthusiasm are not what they were 10 or 20 years ago. It is difficult to keep that going, and it is difficult to keep the workforce working efficiently at the moment and to have surety about the next workload. It is a tough situation.

Colin Smyth: David Thomson, do you have anything to add about the impact of the situation and how your members are supporting your workforces?

David Thomson: We have similar labour problems, which we might discuss later.

Companies are looking at all sorts of ways of addressing the matter. On our website, we have a range of fair work examples that food and drink manufacturers have been using, and we have used some of our skills support to promote businesses with fair work packages. Pay increases have been coming through—they are one of the cost pressures on businesses—and companies have been thinking about different ways of incentivising and supporting staff over what will be a very difficult winter.

Businesses are doing all that they can to hold on to skilled staff. At the moment, the quarter 3 figure for unfilled vacancies in food and drink manufacturing—it is a UK figure, because it has not yet been disaggregated, but it is pretty similar to the Scottish figure—is 9.1 per cent, and companies have been holding at that 10 per cent for a significant time, which is putting pressure on people. They are definitely looking at what they can do to support staff.

Maggie Chapman (North East Scotland) (Green): Good morning. I thank the witnesses for their comments so far.

I wonder whether David Thomson could unpick that 9.1 per cent figure for vacancies. Does it relate directly to specific types of jobs? Earlier, you said that 95 per cent of the businesses that you represent are small to medium sized, but what is the variation in that figure across the organisations and businesses that you represent?

David Thomson: It is pretty consistent. Obviously, one person in an SME can account for more than 10 per cent of the workforce, but although there are fluctuations, the figure is pretty consistent.

The fact is that we are struggling because, as Ian Laird has suggested, people are moving between businesses and, as Euan Clark has suggested, might be choosing to do different things. We are also struggling because some geographies are more difficult. Food and drink manufacturing takes place all over the country, and there are issues relating to remote and rural access. Finally, we are struggling because, like other colleagues around the table, we need science, technology, engineering and maths skills, green skills and digital skills, and we need to think about that not just for new entrants but for those already in a business who might need to upskill.

One of the key things that the labour—[*Inaudible.*]—has pushed people to think more about automation. That, in general, is a good thing, because it enhances productivity and gives people higher-quality jobs. However, the skills that we need in that respect are different from those that we might have needed in the past, and all of that is leading companies to rethink how they support staff. There is a big gap with regard to some of the skills for the future, as I have set out.

Maggie Chapman: That is helpful. It sometimes strikes me that, when we try to grapple with the mismatch between labour and skills shortages and vacancies, we are trying to fix the problem with solutions that will not be fit for the future. Given that you have introduced the issue of automation and how we shift the way in which business works, what focused support would you like to see in the Scottish Government's budget in those areas to pull together the vacancy, labour and skills gaps? After all, automation could significantly transform how we do what we do and how you manufacture what you manufacture.

David Thomson: That is a really good question. In letters to and discussions with the Scottish Government, we have made a couple of things very clear. First of all, we are a recipient of Scottish Government support. Our food for the future programme, which looks at the skills system and how it can support more people in choosing food and drink as a career, continues to evolve. In fact, we have a meeting later this week to discuss the development of next year's strategy. The programme is about promoting the fair work agenda, thinking about skills for the future, such as green skills, and helping educators and the industry to understand the type of dialogue that is needed to ensure that they have the right people in the right places.

As for automation, we have been clear that it is key to developing the industry in Scotland and in supporting productivity and higher-skilled jobs. The Scottish Government has tended to support projects in food and drink manufacturing through various grants, and we have asked that a criterion for any such grant must be how the project will support greater automation and, as a result, greater productivity. That can be quite difficult, because grants are sometimes judged on the number of jobs that they will provide in an area instead of how much more resilient they will make a business. There has been a bit of a sense change with the decision to concentrate on automation, because the labour market is so tight and is likely to remain so for some time.

Maggie Chapman: Ian Laird, I think that you said that up to a third of businesses are thinking of reducing their size and letting people go—or potentially closing—given the cost issues that they face.

I am sorry—it might have been Paul Sheerin who said that.

Paul Sheerin: Yes, it was me. If it was bad news, it was bound to have been me.

Maggie Chapman: What would be the knock-on consequences for employment more generally as a result of that? Is there a tension between that and people wanting to work? I accept what has been said about the shifts in people’s approaches to employment, but how are you balancing those tensions?

Paul Sheerin: There is definitely a tension in that respect, and it must be considered in the context of the overall pressure on costs, on energy and so on. The surprising thing is that our sector has just experienced its sixth consecutive quarter of growth, and we are forecasting that the next will be our seventh. Those are unusual bedfellows. When there are such pressures, optimism normally falls and people tighten their belts.

I need to be careful when I talk about energy. We are talking about companies with full order books that, by dint of running out of cash, are saying that they will have to cut jobs, or even cut the company, because they cannot sustain the current position. A company might have let a bunch of contracts based on a worst-case assumption about energy costs. If energy costs are above that level, it will be on the hook, legally, in relation to those contracts, but it will not be able to fulfil them without running out of cash. That consideration must be borne in mind.

If I heard you correctly, your question was tied to the skills issue and the question of support. We are flat out of skills at the moment. The two largest engineering projects on our radar are the projects for the essential type 26 and type 31 frigates, both of which cannot get as many welders as they need to comfortably keep the programmes moving at the rate at which we would all like to see them progressing.

Scotland has £12.8 billion of Scottish manufacturing spend committed, and big chunks of that will be for fabrication and welding. The challenge that we are facing as a nation of SMEs—I say that not just about Scotland but about the UK—is that those businesses struggle to invest in the skills that they will need in four or five years’ time when they do not have a direct line of sight to the purchase order that will pay for them. If we compare the ratios of work-based learning in Scotland and the UK with those in some of the nations that we would like to compare ourselves with, we will see that we are just not at the races.

I know that I sound like a broken record, but we need work-based learning and apprenticeship support to ensure that we do not miss out on these huge opportunities. Such examples include ScotWind, renewable heat, hydrogen futures and decarbonising transport, and we want to see the maximum amount of value flowing to Scotland from all of those examples. However, if they were all to land today as genuine, off-and-running projects, we just would not have the people to do them. That is not about having green skills or anything else, because most of the projects simply require good skills of the kind that we already have. The fact is that we just do not have enough of them.

Maggie Chapman: You have all mentioned the people shortage in different ways, but the fact is that some of that is not within our control. What would you like us to do to try to make welding and other fabrication jobs more attractive?

Paul Sheerin: I appreciate that there are no magic money trees anywhere for the Scottish Government or, indeed, the UK Government, but when you are facing something so stark, you have to ask yourself, “How do we split up what we’ve already got?” There must be a heavier emphasis on work-based learning. I am the last person to want us to miss any opportunity that might lie ahead of us, but that might happen if we do not do something different.

Maggie Chapman: Ian, I must apologise for mixing you and Paul Sheerin up earlier. Does your sector have same the mismatch with regard to the skills and labour balance, or are there just gaps everywhere?

10:15

Ian Laird: I would say that there are fairly broad gaps. We do not have large employers—the largest is probably one up in Elgin that has just over 1,000 people. We also have hubs such as Hawick in the Borders, which has a number of companies. However, the average number of employees per company in Scotland is probably only 14, so there are a lot of small companies, too. That ties in with our comments on skills development.

The productivity agenda is the right one; we all recognise the need for more investment, and automation will probably contribute to the process, too. However, just as we will need different skills, such as control engineers, so, too, in textiles, there might be people whom we are short of. They might be not welders, but, say, the people who link the arms of knitwear to the body.

That very much requires vocational training. We do not necessarily need people with degrees but people who have gone through skills programmes, perhaps from school, apprenticeships and so on. We will always have a need for that. People who do not want to go to university are not inclined towards academic study, and the textiles industry provides fulfilling careers for them, so we need to help and support those who want to get into it. An openness to considering different methods of achieving that will be key. I am encouraged by the initiative that has been shown in our conversations with bodies such as Skills Development Scotland on piloting different ways of doing that sort of thing.

Maggie Chapman: Thanks. I was going to ask what engagement you had had with SDS, so it is good to hear those comments.

Euan, do you want to respond to the same questions on the mismatch of skills?

Euan Clark: My answer is probably very similar. Going back to my earlier point, I think that, as we lose older members of the workforce, we have to look to opportunities for new entrants, whether they be trade or professional apprentices or people who are earning while they learn through, say, part-time education, honours degrees and so on for the more professional roles in the construction industry.

The issue is not only attracting apprentices but having the pipeline of work to give them these opportunities. That is all in the mix. If no new projects are coming online, because of the issues and challenges that we face, we cannot have our members going into schools, colleges and all the other places where we can get really good talent. If we do not have jobs for apprentices to come on board, it will be difficult to attract them. Once we lose them, they are gone forever, because they will be away doing something else. Future skills and growth are therefore concerns for the construction industry.

As for your point about automation, off-site manufacture is a hot topic in our industry. Many of our members will promote it, because that is where the core of their business is, while others will not. Speaking personally, I am a director of Ashleigh (Scotland) Ltd, which is based down in Ayrshire. We promote trade apprentices; that is and always has been our preference. We are quite traditional in that respect and we want to continue to do it; however, we recognise that off-site manufacture has a place and that many of our members provide such a service. They have to weigh up the costs and productivity and determine the different skill set that such an approach will bring. There is a place for automation, but we have to weigh up where it sits in relation to what we are looking for.

Our primary concern is getting opportunities out there for the new, incoming talent that we want in the construction industry. However, to achieve that, we have to have a pipeline of work. It comes back to the original point in our discussion, which was about the challenges in getting that process going.

Gordon MacDonald (Edinburgh Pentlands) (SNP): I want to pick up on Paul Sheerin's earlier point about the loss of free movement, because I am keen to understand its impact on each of your sectors.

My background is that, before I was elected, I was in public transport. A large proportion of drivers were European Union nationals, but clearly that situation has changed, because a lot of them went back home after Brexit or during the pandemic. I am keen to understand roughly the proportion of EU nationals in each of your sectors and how that proportion has changed in recent years.

Would you support the introduction of a devolved immigration system, as has happened in other countries, so that we can plug the gaps? As Paul Sheerin has said, if we do not have a workforce, we cannot fulfil the order book. How do we close that circle? We are at full employment in Scotland. When I studied economics many years ago, and unemployment rate of 4 per cent was considered to be full employment, and we are at 3.3 per cent. Can you therefore say a wee bit about EU nationals?

Paul Sheerin: Absolutely. The impact has been really significant, although I am sorry to say that I cannot give you a number—I do not know that information. Anecdotally, though, I know that the impact has varied tremendously between regions. We would go into companies where 30 or 35 per cent of the workforce were EU nationals, and interesting things were going on in some of them, such as a particular cuisine day in the canteen, signs in two languages and even lunchtime language clubs so that people could communicate with their colleagues more easily.

As for what sits underneath, I would say, as a way of trying to bring some balance, that the situation slightly masked the fact that we were not growing our own at the rate that we could have done. The principal reason for that goes back to the change that was experienced across the board in the move from having a balance of companies of different sizes to being predominantly an SME-led sector. It is important to note that.

We had some masking of the situation, with the number of people choosing to return to the EU tailing off. However, that was coupled with the impact of Brexit, as a result of which it was no longer easy—and it is not easy—for people to come here. I would highlight the example of welder shortages across Scotland. One of the biggest difficulties in that respect—even for the largest company, which would have the resource and the horsepower to be able to go through the process of bringing someone in—is passing the language test. I know that the issue has probably been discussed, and I hope that the UK Government will reconsider it, because it is an easy and early win that could help.

Beyond that, the pandemic and the slowdown in the industry along with the timing of Brexit meant that we did not start to feel the true impact until we began to come out of lockdown and the pandemic and the industry started to pick up. That has put the impact of Brexit front and centre and made us go, “Ouch, that really hurts.” In the past, small companies would have said, “Look, do you know what? I’m going to go to a European country for the weekend, set up in a hotel for interviews and registration and we will pick up five or six staff.” They could do that easily before, but that option has now gone, and there has been a real impact.

Ian Laird: I do not have a sectoral view. However, I can tell you that I run a business that currently employs around 200 people and that, four or five years ago, 10 per cent of our employees would have been EU nationals. The figure is now around 5 per cent, so the numbers have halved. We have not lost too many—only a couple—but as we have grown, we have not been able to attract people.

These are skilled jobs, and people are hired to create the skills. That takes time, and it involves an apprenticeship that takes a few years. However, they are not high-value jobs—they are not the 35-grand jobs that physicists get and for which we could articulate the need to bring people over. It just means that the door has closed. We cannot address that, and a different way of attracting those skills to fill those gaps would be helpful.

Euan Clark: My view is very similar. Prior to March 2020, the construction industry in general was flying. A number of EU nationals were over, working in a variety of roles, and that potentially masked opportunities for apprenticeships or shortages in those areas at the time. It certainly helped to plug gaps. I do not have the stats either, but the numbers of EU nationals working on building sites across the industry will be down now in comparison with what they were before the lockdown. Some bigger developments and major construction projects will still have a number of EU nationals working on them, but our SME members will have seen their numbers of EU nationals reduced quite significantly.

Gordon MacDonald: What is the level of vacancies for joiners and bricklayers in your sector just now?

Euan Clark: We have a number of vacancies. Again—and this is from a more personal angle—we have recently advertised for two joiner apprentices. It has come late in the year, and the number is much lower than it has been in previous years, but a couple of recent awards have allowed us to do that. In general, we are encouraged by that, because we were not able to do any recruitment last year. We see it as an improvement and hope that, next year, if we can release the floodgates a wee bit, we will be able to move towards our target again.

There are opportunities in that respect. I would not say that there is currently a massive shortage, but as the workload in the pipeline picks up, we might begin to see a slightly different picture in the environment.

The Convener: As members will have observed, David Thomson has had to leave us. It is for understandable reasons, and he has given his apologies for the rest of the meeting.

I call Colin Beattie, to be followed by Fiona Hyslop.

Colin Beattie (Midlothian North and Musselburgh) (SNP): We have heard a fair bit about the cost of doing business and issues around labour shortages. On the other side of the coin are the consumers—the people buying the products. The Scottish and UK Governments have made a number of policy pronouncements—although I am not sure that we can rely on the current situation as far as UK policy pronouncements are concerned. It is likely that there will be changes there. How concerned are you about the longer-term outlook for consumer spending and demand for goods? I would like Paul Sheerin to start, given that he was remarkably cheery about the health of the order books.

Paul Sheerin: Oh boy. We are into the range of personal opinion here, and that is never a comfortable place to be.

Although I share your concerns from a consumer point of view, I would say, with my optimistic hat on, that our sector could be somewhat insulated from that situation. Post pandemic, a number of things have happened that are causing the order books to be as full as they are. A principal factor for the engineering sector in Scotland just now is the fact that no one wants to buy another cubic metre of Russian gas unless they have to. We have therefore seen growth in existing extraction projects, which had been on hold for literally years and have now been taken off hold with some urgency. That sector is busy.

The other sector in which we have seen a real impact is aerospace, which is also busy. That is partly down to fleet being renewed in the move towards having aircraft—both wide-bodied and narrow-bodied—that have less environmental impact. The space sector in Scotland is busy, too.

I would couple all of that talk of an optimistic future with saying that we cannot take our eye off the climate emergency. Among the actions that we have identified to address that, and of all the areas in which we have choices to make, I do not believe that we have a choice with regard to decarbonisation. I talked earlier about £12.8 billion of manufacturing spend in Scotland. I see that sitting alongside the decarbonisation of heat and transport and alongside hydrogen futures, which

Scotland is so well placed to take advantage of, and I have a bit of optimism that, although we might have to go through some tough times washing over from the broader economy, the sector should, if we are doing the right things, actually be somewhat insulated from that.

Colin Beattie: We have heard a relatively optimistic view there, but when we come down to it, the fact is that the average man on the street is facing rising food costs, exponential increases in the cost of energy and shrinking disposable income. That is bound to have an impact throughout the economy. Ian, how concerned are you about consumer demand?

Ian Laird: It is very strange, because I agree with what has been said. We have looked at all the challenges—costs increasing across the board, inflation and the challenges with skills that we have talked about—and yet our sector, too, is strangely buoyant at present. When we look at demand, we think that it could well carry on for us.

Generally, the textile sector makes high-value products largely for export. We have cashmere going to the best department stores in Tokyo and New York, where consumers are probably not so affected by the current conditions. We have technical fabrics going around the world as well as leather going into Mulberry handbags. The products that are created in Scotland tend to go into consumer products or applications that are relatively high value and might not be as impacted by the squeeze that is happening.

That is why the main concern about the cost of living is not that the end consumer of our products will disappear; it is about employees, because we need them to produce what we create. We share some of Paul Sheerin's optimism about the products that we are producing being best in class—they are world leading—and about there being good demand.

10:30

The situation is slightly perplexing, because, on the one hand, when you look at the situation, you have to wonder whether we are just going to fall off a cliff. Can we really talk to customers about double-digit price increases again and not have a softening of demand? We have been through that already and you have to think that, at some point, demand will surely crash. None of us wants that, and we are apprehensive about it. It might also lead us to hold back on some investment, because we are not sure whether demand can be sustained. However, the reality is that, at the moment, the order books are all good.

Colin Beattie: Another optimistic person! How about you, Euan?

Euan Clark: I am less so. I guess that I have to consider the situation from a slightly wider perspective, depending on where in our membership you are pitching the question.

From the point of view of the housing market, there definitely has been and continues to be a slowdown. I believe that that is consumer driven, with the wider volatility in interest rates. With the slowdown, some private house builders will no doubt reduce employment opportunities, with, potentially, a further loss of operatives, wherever they go.

Smaller projects, such as housing extensions, were absolutely flying during lockdown. During that first summer of 2020, everybody wanted to do something in their garden or put an extension out the back of their house, and many of our members did really well off the back of that. That type of construction opportunity is now slowing down dramatically, too, but it is at the much smaller end of the spectrum. The SME-type size of our membership means that, if their work is public sector backed, they are reliant on Scottish Government-funded projects. That is the issue, aside from the costs challenge that we have spoken about throughout the meeting.

In short, I would say that the situation is a bit mixed, depending on where you angle the perspective.

Fiona Hyslop (Linlithgow) (SNP): I thank the witnesses for their valuable insights. The reality is that we will face budget cuts rather than additional funding. We anticipate the UK Chancellor of the Exchequer's statement, and austerity is likely to mean cuts in budgets. What are the most important financial policy support measures from the Scottish Government that the witnesses would want to keep?

Euan Clark: We obviously want to keep a pipeline of work, so it is about finding a product that fits into the budgetary measures that are available to us. When we had discussions earlier in the year, there was discussion about how businesses fit affordability caps. Perhaps they have to make specification changes or reduce not the quality of their product but what they are including in it.

Part of the increase in costs is directly related not to the hyperinflation on materials and labour but to what is to be included in public sector buildings.

Thinking about housing, that includes things like the introduction of sprinklers and sustainability enhancements, and perhaps more expensive heating solutions in the form of renewables, as an alternative to gas as we move towards net zero. It is about perhaps reducing people's expectation of what they will get in the product, such that they can still go ahead with a full construction programme that may not be as expensive, in order to fit the available budget.

Fiona Hyslop: So the power of procurement should be considered as part of the budget. That is a strong message.

I come to Ian Laird. What financial measures, support or policies do you want to be kept rather than cut?

Ian Laird: I would focus on two areas. One would be skills. I have just been sounding optimistic in saying that there is a future, but that is only if folk can fulfil orders and there is a supply pipeline. If we do not deliver, we will not be growing, so the skills development programme is key.

The other area operates over a different time horizon, thinking more strategically about the future and the just transition to net zero. The manufacturing sector is a key consumer of energy. We have talked about energy from a cost perspective, but we are all looking at using either less energy or more sustainable sources of energy. I think that Scotland articulates a desire to lead in that area, and yet we have a huge manufacturing sector with which we should do more. We can think about individual company perspectives, but my group is very limited in what we can do across individual companies to reduce energy and find more sustainable energy sources. The opportunity for Scotland is to think about how we can do that for more of the manufacturing sector, whether in food and drink, pharmaceuticals or engineering.

Bodies such as the National Manufacturing Institute Scotland probably have a role to play in helping to shape that. It is about helping us to be the type of company that we want to be in 10 years, where we are competing on a different playing field but leading in some of the spaces that we have talked about just now. We have good aspirations there, but we are not currently leading the way any more than any other country or company is.

Fiona Hyslop: I come to Paul Sheerin. What do you want to keep?

Paul Sheerin: My view is pretty much the same as Ian Laird described. Skills is the number one area; a subset of that is that we have to carve out protection and extension for work-based learning, for all the reasons that I gave earlier. Behind that, we have to protect or extend upskilling and reskilling. The largest swathe of people who will be involved are in our workforce, some of them in sectors that may be affected as the habits of humans change. That may become an opportunity to transform those sectors, but we need to have resource set aside to upskill and reskill people so that they can transition in that way.

Skills should be first, and then—as Ian Laird said—support for the transition to net zero. That might involve companies becoming more efficient or changing the way that they work, and also diversifying. I mentioned earlier that we have a tremendous opportunity from legacy energy. That sector is currently very important and very busy, but those companies understand that there has to be a pathway to change for them. Support for those types of activities and in those policy areas, such as support for making the most of the opportunities such as hydrogen futures allied to offshore wind generation, is therefore massively important.

Fiona Hyslop: I will stay with Paul Sheerin. I was struck by your sobering contribution earlier, in which you said that, even with the best will in the world, we just do not have the people or the skills base to make the most of the fantastic opportunities for new energy, whether that involves future hydrogen programmes or ScotWind.

Previously, in growing the life sciences sector, for example, we had a two-for-one apprenticeship scheme. In keeping employability and workplace learning, do you think that it is possible within that to ramp up the alliances with employers? Perhaps we could have some kind of bridging scheme to help them, over the next five years, to grow the group of welders or manufacturers and enable us to maximise the growth opportunities for the future. That might be a bit of a leading question, but you can tell me whether you agree or disagree.

Paul Sheerin: If we look back at the apprenticeship incentive initiative—I am not sure that that is the right name for it—we can see some evidence there. We were all concerned at the drop in apprentices during the pandemic, across the board, not just in engineering, and the apprenticeship incentive that was in place for three or four months had a huge impact. The amount does not have to be huge—I think that it was £5,000 in that case. In general, an apprentice for an engineering company would cost that company around £100,000 in investment for four years to enable them to gain that skill set, so the incentive covered only a very small percentage of the contribution from industry, but it made a huge difference in tipping those SMEs over into saying, “Let’s reach up and go for two apprentices, not one”, or four apprentices rather than two. Anything in that area would be hugely useful.

Do we have the interest? This year, we still have companies that are reporting ratios of applications to places of between 50:1 and 100:1. The balance within that, and the diversity in terms of whether the applicants reflect society, is not what we would like it to be, but that is for us and others in the industry to work on. There is no shortage of demand. It is not the case that people do not want to come into the industry—we simply do not have enough companies that are confident enough to say, "You know what? I'm going to go for it and increase my number of apprentices." We need to do that if we want to take up the opportunities that are coming.

Fiona Hyslop: Thank you.

Jamie Halcro Johnston (Highlands and Islands) (Con): Before I come to my questions, I will ask Ian Laird to comment. We have heard a lot in the past from domestic home owners in particular about the need for clarity on and signposting to energy advice, because that can be quite difficult to find. Do you think that that sort of support is available for SMEs, in particular? If it is, is it signposted clearly enough to enable them to access funding to support transition?

Ian Laird: I think that SMEs find it hard in general to understand what support is available, whether it is on energy or skills. SMEs are juggling a lot of things around demand and fulfilment. It is probably harsh to say that that support is not there, because it might be there if people went looking for it. The issue is how businesses access it; that is probably tricky for small businesses.

Jamie Halcro Johnston: Does Paul Sheerin want to come in on that?

Paul Sheerin: In general, energy tends to be a bigger share of the total cost, so there is good awareness of what is available in that area. Many of our companies are self-sufficient, but there are a range of organisations out there that will signpost them to that sort of support. Scottish Engineering is one of those organisations; NMIS would be another, along with the Scottish manufacturing advisory service—and Scottish Enterprise, if a business is account managed. Business Gateway is another one. There are a number of ways to get support. I do not think that there is any shortage in that regard.

I would differentiate between support for SMEs and support for consumers, which is not thought about so much. For industry, however, it has been pretty much front and centre for some time.

Jamie Halcro Johnston: Thank you for that. I come back to Ian Laird, and we can then hear from the other witnesses.

We know that the next few months and the year ahead are going to be difficult, but we know that people will still be starting new businesses, and there will be new initiatives and the like. Given the pressure on budgets, particularly for the enterprise bodies and other organisations that support start-ups, is there enough in the budget, both currently and in the future, to support new starts properly? What do you think the impact on them could be?

Ian Laird: For our sector, to be honest, the level of new starts is not high and the entry barriers are relatively low. It would probably be good to direct some of the funding and support in Scotland to other sectors such as university spinouts and the development of technology, rather than the textiles sector, in which people can get going relatively easily. It might be hard to develop traction, but textiles has a relatively low entry barrier and the level of Business Gateway-type support to help businesses to scale up is probably reasonable.

Paul Sheerin: I remember being at meetings and events at the 26th United Nations climate change conference of the parties—COP26—and what struck me most was hearing about the willingness of capital to support initiatives that would help. I was sceptical—well, not too sceptical, but I keep a cautious eye on it, and from what I have seen since then, it is true.

Companies starting up on foundations that are based on something essentially useful to the climate challenge and underpinned by global-from-birth digital principles do not seem to be struggling to get support and investment from private finance. Government support should be available where there is market failure, but my subjective view is that we are not talking about market failure as far as those kinds of start-up companies are concerned.

10:45

Euan Clark: I do not have an awful lot to add. In our sector, start-up companies have been few and far between over the last period. It is perhaps a question that David Thomson might have been able to give a better answer to, but, as I have said, I do not have anything meaningful to add to what the other guys have said.

Jamie Halcro Johnston: I have one last quick general question. A chief entrepreneur was appointed in, I think, April, and we have talked about some of the changes that will happen with business, particularly with regard to innovation. Has your sector had contact with the chief entrepreneur, and what are your thoughts on how innovation and entrepreneurship are supported in Scotland? Perhaps Ian Laird can respond first.

Ian Laird: I am hugely enthusiastic about innovation and entrepreneurship and what Scotland can do in that respect. Indeed, I was involved in that work prior to my involvement with textiles, so I think that it is great.

The textile sector is actually relatively low tech, but we are recognising that we need to embrace the future in a more collaborative way and to start to work together. Even though our companies compete, we need to find areas where we do not have to compete. For example, our sector has not been good at applying for Innovation UK grants for collaborative working, whereas the aerospace sector has been great at that sort of thing. As I have said, we need to look at those areas where we do not compete or where there is some greater good and find ways of unlocking some of those schemes. That could be through support from Scottish innovation activities or from the Scottish Funding Council, aligning some key challenges or actions that we might have and looking at whether we can use Scotland's academic base to help align activity with certain sectoral challenges.

In the past, the sector has not been good enough at articulating that sort of thing, but we are starting to come together and thinking about how we do that. Whether we are talking about manufacturing technology, innovation or materials of the future, we recognise that we should be using some of the talent on our doorstep and some of those innovation schemes.

Euan Clark: In the construction industry, you always have to keep an eye on innovation, the new products and materials that are available and so on. Obviously, you also need to keep an eye on cost, because it all has to fit in with the available budget.

At the moment, though, everyone just wants to settle down. You always have to demonstrate that you are looking at innovation and using it where you can, but I think that we just want to find our feet again after the pandemic and walk before we can run.

Paul Sheerin: Research and development and innovation have always been important to our sector. I always get nervous about quoting facts, but I would just point out that our sector accounts for 10 per cent of our gross domestic product and that 50 per cent of the R and D and innovation spend in Scotland comes from manufacturing and engineering. It is front and centre for us.

I think that there is a bit of an overlap here with some of the themes that we have talked about today such as skills and the busyness that we have at the moment. Companies are busy right now, and their order books are full, but they are also saying that the limiting factor in taking on any more orders is the fact that they just do not have the volume of people.

In that respect, there is one unhelpful overlap that I would mention. During the pandemic, when there was a reduction or flattening in orders, companies made good use of the time to progress with diversification, future net zero-aligned activities and ways of moving from the industries that they were predominantly in to a better spread with a road map for the future. However, the current busyness has definitely slowed all of that down. The R and D and innovation that sat behind that work on taking the skills, knowledge and capability that the companies had and applying them to future opportunities have had to take a back seat, because of the pressure of delivering—and, indeed, delivering things that none of us will disagree are important.

Jamie Halcro Johnston: Thank you.

Michelle Thomson (Falkirk East) (SNP): Good morning. We have covered a broad range of areas across the piece. Before I ask a few other questions I want to check whether any of the three remaining panel members feels that there might be questions that we should have put but have not been able to in a session of this breadth. On my screen I can only see the witnesses' backs, so I ask whoever wishes to go first to do so.

Euan Clark: I will go first. I was not expecting anything else to be asked. We have had a broad range of questions. From my perspective—and probably from those of all three of us—I can say that it has been good to get our points across.

Ian Laird: I think that you have covered things well. I have certainly already made reference to any other points that I would have expected to answer.

Paul Sheerin: It is the same for me. We have had a good conversation. I came in with a focus on the impact of energy costs, but of course everything is related and our conversation has covered that.

Michelle Thomson: I have a last wee question, just to bottom that out. A lot of our discussion has summed up the issues that we face at the moment, such as lack of access to labour and problems with capital, and has moved on to the longer-term impact on productivity or the lack of it. That is where the UK scores badly when we look at comparator countries, whether they be small economies or larger advanced ones.

My question to you is: based on all the people with whom you work, do you anticipate a slowdown in investment? That might be investment in automation—which David Thomson brought up earlier—or in more general terms, while, at least in the short period, we will be focusing on getting through what looks likely to be a difficult period or in the longer run because of the wider concerns that are being shared about another decade of austerity. It would be useful to hear your thoughts on that.

Euan Clark: The construction industry's concern would be over the pipeline of projects that I mentioned earlier. It would be good to have certainty about what that is. I suppose that you will not quite be able to answer that at the moment.

A slowdown would have a far-reaching effect on the wider supply chain. Our concern would be that construction projects would drop off and there would be a fundamental and monumental impact on labour, on dealing with suppliers and on subcontractors. It would affect all the issues that we have just discussed. We would be concerned about any reduced capital spend on construction projects.

Ian Laird: It is a concern, because confidence is required for investment. Just now, although we have articulated that in some areas people are buoyant and optimistic, there is also a wall of challenges in terms of increasing costs, whether they be for materials or labour or have been caused by general inflation. Such uncertainty is not good from an investment point of view.

We are also coming off the back of a few challenging years in which companies have kept going but have inevitably sustained losses and used up their cash reserves and so their tanks are starting from a less full position.

On top of that is the investment perspective from which people are currently looking at the UK and Scotland. For example, our business is foreign owned. Right now we are not putting on our best game in terms of saying that this is a place to invest in.

There are a number of reasons to be concerned about investment, yet it will be required to get us to the productivity level that we need. Given that none of us thinks that we will address the people shortage instantly, productivity has to feature. That is why, as I explained, I would retain the Government investment in improving the manufacturing sector's performance. We often talk sectorally, but manufacturing is still employing a lot of people. Perhaps we have spent a number of years forgetting about its importance.

Paul Sheerin: There are two sides to that coin. On the large-scale investments, there are companies that could get help with energy usage by changing the building that they are in to one with a more thermally efficient roof and skylights to reduce some of the impacts. Investments of size and scale will be difficult. As Ian Laird said, the tanks are relatively empty. We came out of the Covid impact amazingly well thanks in part to the furlough scheme but it reduced cash reserves, so the ability to make large investments will be restricted.

The other side of that coin is that, as I said earlier, hunger makes good kitchen. I have never seen so many projects that are considering using a cobot to replace the people who stand at the end of a line packing a good. However, in all the cases that I have seen of that, there has not been a reduction of people. The companies that I have seen invest in automation have only ended up employing more people, not fewer, because it has made their business fundamentally more sustainable.

There is a democratisation in some of those technologies. They have become much more affordable than they were three, four or five years ago and, therefore, come into the category of easier investments. People are too precious to have them standing doing something if you can get a cobot to do it and get the person to do something much more useful.

There are examples of that. The Scottish manufacturing advisory service has been following the principles of digital on a shoestring. That is about using digital automation within SMEs but it need not be expensive. It is about using techniques and apps that are available at a low cost. It is a different way of thinking but the sheer pervasiveness of that digital thread in society means that it is much easier to take such things and connect them for an awful lot less money than it cost even four or five years ago.

Michelle Thomson: That is helpful. My last question concerns the energy suppliers. Are people getting the support that they need from the suppliers? We have covered extensively the support that they need from Government. Are they getting the support that they need, from what you are picking up?

Paul Sheerin: That is from the energy supply companies, so the retail lines that are—

Michelle Thomson: Yes.

Paul Sheerin: It is a good question. I am really not sure how to answer that. We have all learned an awful lot about the energy market in the past year. There are wider, broader and more international underpinnings than I ever understood. It has been a tumultuous time. There are suppliers that have come out of the market, which we have very much thinned down.

I will pass on the question because I do not have a strong enough view on it to be useful.

Michelle Thomson: To clarify, we have seen the focus on supporting consumers but my concern is supporting SMEs. It will often not be a contract of equals between a large supplier, which might be a large multinational, and an SME. I am trying to tease out a bit more information about that. I am sorry if I was not clear.

Paul Sheerin: I referred to that before. It is one of the reasons why the intervention by the UK Government was welcome. There was a concern about SMEs that were fairly new or below a certain threshold not getting as good a deal as larger companies.

The energy suppliers are trying to second guess where everything is going to go as well and what their liability will be for a high potential cost that could not be recompensed by companies for the reasons that I mentioned earlier. That is not a great situation but everybody has a business to manage and everybody has to manage their business with their duty of care as a director. That includes what contracts they take on and whether those contracts can be fulfilled. It is a vicious circle that goes around and the underpinnings to it are understandable.

The Convener: Would anyone else like to respond to Michelle Thomson's question or has Paul Sheerin covered it?

11:00

Euan Clark: I am not sure that I can add an awful lot, I am afraid. I do not have a huge understanding of how the energy suppliers work. I know how the situation has impacted on our business and membership because we have had to absorb increased costs with some support along the way. However, I cannot answer about the viewpoint that you ask about.

Ian Laird: I probably cannot add any value either.

The Convener: Before recess, we had a panel of witnesses from the hospitality and tourism sector. They described the cost of living crisis as a greater challenge for them than Covid and compared the support that they got for businesses to survive during the pandemic to what they are getting now.

I do not get the same impression from this morning's witnesses. I do not know whether Covid was easier for your sectors to cope with than it was for hospitality and tourism. Can the challenges with which businesses are presented at the moment be compared to the lockdowns that we had with the pandemic? Do you see any parallels between the support that you would expect or have seen from Government for the current situation and the support that there was during the pandemic?

Ian Laird: In the pandemic, we were managing a crisis that felt like survival. It was about keeping our heads above water and keeping going. The different support allowed us to do that.

What is different now is that it feels like more of the control should be in our own hands, particularly in relation to skills and people. If you have an order book and demand, you think that all that you have to do is get the people, get the skills and fulfil the orders. It feels like we should be able to do more ourselves, whereas we were looking to Government, vaccine producers and other people to solve the pandemic.

I guess that we are just struggling because so much is limited by people. That is what feels like it is not in our control. Beyond that, there are the rising costs, whether for energy or materials, and how we negotiate cost increases to us and pass on to customers whatever we can of those increases.

The Convener: The committee constantly hears about skills. We bring witnesses before us on a different issue and always end up coming back to the skills gap. You will know that the Scottish Government has appointed James Withers to lead an inquiry into skills. It has been a constant issue. I think that the inquiry is just starting but it sounds like the issue is pretty pressing. How soon do we need change in Scotland around that agenda?

I will give Paul Sheerin the last word on the matter.

Paul Sheerin: The answer is literally as soon as possible. The sooner we do something about it, the sooner the situation will get better. We are aware of James Withers's review and you will not be surprised to know that we have gone in early and asked to be on the calendar to give an input to that group.

The Convener: I thank the witnesses for sharing their expertise and experience with us.

We now move into private.

11:03

Meeting continued in private until 12:37.

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