



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy and Fair Work Committee

Wednesday 9 November 2022

Session 6



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Pàrlamaid na h-Alba

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ECONOMY AND FAIR WORK COMMITTEE

25th 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:

- Graeme Cook (Scottish Government)
- Carron Flockhart (Scottish Government)
- Ivan McKee (Minister for Business, Trade, Tourism and Enterprise)
- Andy Park (Scottish Government)
- Dermot Rhatigan (Scottish Government)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy and Fair Work Committee

Wednesday 9 November 2022

[The Convener opened the meeting at 10:01]

Decision on Taking Business in Private

The Convener (Claire Baker): Good morning, and welcome to the 25th meeting in 2022 of the Economy and Fair Work Committee. No apologies have been received from members. Jamie Halcro Johnston is joining us remotely.

Our first item of business is to decide whether to take agenda items 3, 4 and 5 in private. Are members content to do so?

Members indicated agreement.

Scotland's Supply Chain

10:01

The Convener: Our next item of business is an evidence session on the Scottish Government's response to our report on our inquiry into Scotland's supply chain. In that inquiry, we looked at the short-term and medium-term structural challenges that Scotland's supply chain faces, and how the challenges and shifts in supply chains are impacting on Scotland's economy. The committee published its report on 20 April, and the Scottish Government responded on 4 July. The purpose of today's evidence session is to consider that response and to discuss in more detail the issues that were raised with the Minister for Business, Trade, Tourism and Enterprise.

I welcome to the committee the minister, Ivan McKee MSP, who is joined by witnesses from the Scottish Government. Andy Park is head of economics in the Transport Scotland strategy and analysis division; Graeme Cook is deputy director in procurement services; Carron Flockhart is unit head in skills planning and sector engagement; and Dermot Rhatigan is deputy director for manufacturing and industries.

As always, I ask members and witnesses to keep their questions and answers as concise as possible.

I invite the minister to make an opening statement.

The Minister for Business, Trade, Tourism and Enterprise (Ivan McKee): Thank you very much, convener, and thank you for allowing me to bring a number of officials. It is great to be back. As you will appreciate, the issues that are covered in the comprehensive piece of work that we will discuss are quite extensive.

Since my previous appearance in January and my formal response to the committee's report in July, which you mentioned, the global economic outlook has, of course, weakened considerably. As the Deputy First Minister noted last week in "Emergency Budget Review 2022-23":

"The whole world is facing a period of substantial economic turmoil ... Rising prices, soaring energy bills, and the resulting increased financial pressure on public services are not unique to the UK.

However, the UK Government—as a result of Brexit, inaction over the summer and the catastrophic decision to announce unfunded tax cuts for the wealthiest—has made the situation in the UK significantly worse."

Against that backdrop, we have regularly engaged with businesses and business organisations. It is vital that we take all action within our power to support our businesses through these difficult times.

“Scotland’s National Strategy for Economic Transformation” was published in March and, last month, we published delivery plans for the strategy’s programmes. Those five strategic programmes remain right for the country, and our delivery-focused sixth programme builds the team Scotland response that we need to deliver change.

As we set out in the programme for government in September, we are prioritising and accelerating actions where we can to help people and businesses through the current economic crisis. In tandem with that, through the national strategy, we are continuing to build for the long term to strengthen our economic resilience, including in supply chains, nationally and internationally.

The committee’s report is wide ranging. It covers the themes of people, place and product, and the Scottish Government’s response sets out actions that we are taking across a range of policy areas.

Skills is a prominent theme in the committee’s report. The national strategy’s skilled workforce programme recognises the importance of national and regional skills planning to address skills gaps and shortages, and to ensure that we have a pipeline of skilled workers to meet the needs of a green economy.

We are already taking action to improve our approach to aligning skills provision with employer needs through the shared outcomes framework, and we expect the recommendations from the independent inquiry into the skills delivery landscape next spring.

We have also undertaken evaluations of the flexible workforce development fund and individual training accounts, and we expect to publish those reports this year.

To expand Scotland’s available talent pool, we have committed to launch a talent attraction and migration service in 2023, and I am engaging with industry to develop a talent attraction programme for the rest of the United Kingdom.

The national strategy aims to position Scotland to maximise the greatest economic opportunities of the next 10 years. We are at the forefront of delivering a just transition to net zero by 2045, with an ambitious interim target of a 75 per cent reduction in emissions by 2030.

In relation to ScotWind, supply chain development statements set out developers’ commitments for supply chain content, and we have been clear with developers about our expectation of what must be delivered. I welcome the collective commitment that has been made to invest an average projected £1.4 billion per project in Scotland. That equates to more than £28 billion across the 20 ScotWind projects.

We know that the manufacturing sector will be central to the successful delivery of the national strategy. The sector’s transition to low-carbon manufacturing will generate new well-paid jobs, and the wide reach of the new National Manufacturing Institute Scotland will help to boost manufacturing research, development and innovation across the country.

Since the publication of the national strategy, we have launched the £25 million low-carbon manufacturing challenge fund, which is designed to build on Scotland’s existing expertise and encourage partnerships to come forward with bids that will encourage the adoption or development of low-carbon technologies or processes.

We are using the levers at our disposal to maximise the social, economic and environmental impacts of public procurement in Scotland. In the 2021-22 financial year, 74 per cent of just under 19,000 suppliers that were awarded public sector contracts across Scotland had registered on our systems with a Scotland-based business address.

In October 2020, we published guidance on supply chain resilience and diversity, and reminded public bodies of practical steps that should be taken to support supply chains and help to reduce the risk of disruption to supplies caused by supply chain vulnerabilities and surges in demand.

Robust and resilient supply chains are the bedrock of a thriving economy. We must take every opportunity to continue to strengthen Scotland’s supply chains.

I look forward to our discussion.

The Convener: Thank you very much, minister.

You recognise the breadth of the report, and members will look to cover many issues. We appreciate that you are not responsible for all those issues, but we welcome the fact that you have brought support with you. I hope that we can have a broad discussion.

The driver for the report was the impact of Brexit and the pandemic on supply chains. More recently, there has been the war in Ukraine, which is putting pressures on them. From the evidence that we heard, the committee felt that there needed to be more resilience in the Scottish system and concentration on shorter supply chains and more local supply. However, the Government’s response did not really take that broader or longer-term view. We recognise that lots of work is happening in different areas, but we did not really get the impression that there was a shift or that you were thinking about how to respond to not just the existing pressures but the likely future pressures, given the impact of climate change and other global issues. Is there a longer-

term strategy or focus to make Scotland more resilient?

Ivan McKee: Absolutely there is. If that did not come across in the reply, it should have. The supply chain development programme that we are taking forward is very much focused on identifying areas of the economy and supply chains in which we can build more resilience and shift to having more capacity and capability in Scotland, particularly in manufacturing. That covers a wide range of programmes, including the work in Scotland to support the building of indigenous local supply chains for floating offshore wind technology.

On hydrogen, we recently published a report that identifies opportunities for manufacturing businesses in the upcoming hydrogen supply chain.

There are opportunities in construction, the timber supply chain, offsite manufacturing for the construction sector, and in life sciences around medicines manufacture. We are, of course, about to open the medicines manufacturing innovation centre in Inchinnan. We recognise that there are opportunities across a whole range of sectors for Scotland to further strengthen our indigenous supply chains and to encourage and support Scottish businesses to take advantage of those.

Of course, the committee will recognise that global supply chains are complicated and that, clearly, with regard to the raw material supply situation and many manufacturing processes, we are not in a position to be able to take over all supply chains, and it would be foolish to attempt to do that, given the complexities that are involved. However, of course, for reasons of economic development and resilience, where we can engage with supply chains, we seek to do that.

Much of our approach is built on the response to the pandemic. As you know, we were successful in building up an indigenous Scottish supply chain for personal protective equipment during that time.

The Convener: In its recommendations, the committee suggested that the supply chain development programme could be expanded. You have spoken about future supply chains in growth areas such as renewables and life sciences. We also had concerns about existing supply chains that people rely on every day, such as those involving food products. Like many other western nations, we depend on imports to a large extent—we saw disruption in that regard during the pandemic. Would the supply chain development programme include that kind of issue? Is there a drive in Government to consider whether a reliance on imports is the right balance, or is that issue not a priority? Should we change that?

Ivan McKee: As I said, the priority with regard to supply chains is to look at where there are opportunities for us to be competitive because we have the necessary capability and technology to maximise the opportunities for the manufacture of products within Scotland.

On the food supply chain specifically, Scotland has a thriving food and drink sector, which we are proud of. The Cabinet Secretary for Rural Affairs and Islands is focused on what we do to continue to develop that sector. There are many factors that relate to agriculture more broadly, including climate change and financial support, but the supply chain is a big issue, and, where there are opportunities for us to grow more produce in Scotland in order to support resilience, and where that makes sense for the agriculture sector, that is something that we are focused on.

The Convener: Is the development programme a cross-departmental one?

Ivan McKee: Yes. It focuses on a range of sectors where we have identified that an opportunity exists. We are open to adding more programmes to the collection of programmes that are considered as part of that work, where it makes sense to do so, and I am open to agriculture programmes being part of that, although, as I say, many factors impact on the agriculture agenda, including climate change, financial support, land use, natural capital and biodiversity.

The Convener: I want to move on to issues around the labour market. One of the issues that came through in our inquiry was inactivity, which we discussed when you gave evidence. We recognise that it is not a huge factor here, but it is a factor, and the 10-year economic transformation plan says that it will systematically address Scotland's Labour market connectivity challenges. Is work being taken forward on that?

In its budget report, the committee expressed concerns about the £53 million cut to employability services, and we wrote a letter to the cabinet secretary about that this week. Are timescales attached to any work that is being done in relation to the economic plan? Is there an action plan to address the issue?

Ivan McKee: Not only is there a focus on that, with work being undertaken, but we are actually delivering results. Possibly for the first time—certainly for the first time in quite a while—Scotland's economic inactivity rate is lower than that of the United Kingdom as a whole. In Scotland, the number of economically inactive people reduced by 20,000 over the most recent period, while in the rest of the UK it increased by 220,000. That means that Scotland now has not only the lowest unemployment rate in the UK but a

lower economic inactivity rate than there is in the rest of the UK, and we also have a higher employment rate than the rest of the UK.

We are still at an early stage of the work, but we are seeing results from it. I have no doubt that, as the rest of the programme rolls out, we will continue to make a positive impact on those numbers and increase the indigenous supply of labour to Scottish businesses.

10:15

On your specific question about the input side, the prioritisation of resources across the emergency budget review had to take into account a wide range of factors. Some £82 million is being spent on employability support as we move forward. As we are in a position in which a tight labour market is in play, we need to understand where best to divert resources to in order to support labour supply and provide support for businesses and, more widely, across society, at a time when it is hard for many individuals, families and communities to keep their heads above water, given the cost pressures that exist.

We have a programme in place, and the national strategy is driving that forward. Details of that were published in the project plans at the end of last month. We are already delivering results in that area.

The Convener: However, the project plans do not include specific milestones or targets for economic inactivity. The reduction by 20,000 that you mention is welcome, but do we know why that happened? Has it been because of proactive engagement by the Government, or has it happened because the labour market is tight? The evidence that we have heard during our inquiry and in relation to the budget suggests that there are concerns about the cut that has come in with regard to employability services. The businesses that we heard from last week told us that they need help to bring a group of people into the workforce, and that there are still challenges around part of the labour market.

Ivan McKee: There are still challenges, and the biggest reason why there are challenges is the immigration policy. Without doubt, that is the single biggest issue in this area—everybody will tell you that; businesses and everyone else.

The Convener: I am sorry; I meant that there are challenges around employing people are economically inactive and need additional support to come into the workplace.

Ivan McKee: The biggest reasons why businesses cannot get people to fill vacancies are immigration policy and Brexit. That is absolutely

clear. In that context, we are doing everything that we can to support businesses.

Of course, bringing more people into the labour market will push the numbers in the right direction, but I point to data that allows us to compare and contrast Scotland's performance with that of the rest of the UK, which shows that we are more successful. Our labour market inactivity numbers are going in the right direction, while those in the rest of the UK are going in the other direction, and we believe that that is a consequence of the work that we have done in areas such as childcare support and employability support to help get into the labour market individuals who otherwise would not have been able to do so.

A wide range of factors impact what is quite a wide and varied cohort within that 21.6 per cent of people in the 16 to 25-year-old age group who are still economically inactive. We continue to address those issues. As I have already indicated, £82 million is being spent on employability support.

With regard to all of the budget calls that we hear, of course, everybody can say that they want more money for everything but, as you know, because the Scottish Government does not have borrowing powers, due to the current constitutional settlement, we have to run a balanced budget, unlike the UK Government, obviously, and that puts constraints on what we can do. Decisions have to be made and I think that we have made the right decision. We are getting results and we are continuing to invest significantly in employment.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Good morning. I want to continue the discussion that you have just started about immigration. In your July letter to the committee, you highlighted that

“the ending of freedom of movement is projected to result in a ... reduction in our working age population”

of up to 5 per cent. You went on to say that the

“UK immigration system is unresponsive to labour market requirements.”

Given that there have been a number of changes in Government since that letter was written, what discussions have taken place with UK ministers regarding devolving immigration, as happens in other countries, or about amending the Scottish shortage occupation list?

Ivan McKee: We continue to engage with the UK Government. I have a list somewhere of the dates on which letters have been sent on that issue and a range of others.

You are right to say that the policy is misguided and is a huge brake on the economy. Unfortunately, it is a policy that has not only been continued by successive UK Governments over

the past few weeks but which, unfortunately, the Westminster Opposition has got a misguided and unhelpful approach to, as was indicated over the weekend.

Our position is clear: Scotland's economy needs to be open. We need to have free movement and to be part of the European single market. We need to have a much more flexible approach to immigration so that people who come here to study or for other reasons and have talents that we need are able to contribute to the growth of Scotland's economy and help to fill some of the critical shortages that we have across the economy.

We continue to engage with the UK Government on that and to put pressure on it. You can be assured that we take every opportunity to highlight that issue in ministerial engagement and in other forums. The UK Government needs to wake up and take a more sensible and business-friendly approach to immigration.

Gordon MacDonald: In your letter to the committee, you highlighted that the three devolved Governments—the Welsh, Northern Irish and Scottish Governments—wrote a joint letter to the UK Government that called for the establishment of a joint task force on labour market shortages. How is that progressing? Have UK Government ministers engaged on that subject?

Ivan McKee: Finding UK Government ministers to engage with has been a challenge over the past few weeks, as you can appreciate. Much of that communication has not been responded to and, when it has been, our view has been that the UK Government is not doing what it needs to do to address the specifics of those issues. As I said, we continue to take every opportunity to press it on that. Unfortunately, its responses have been less than helpful and, if anything, they have shown that the UK Government is going in the wrong direction, as is reflected in what UK Government ministers have said in recent days and weeks.

Gordon MacDonald: Given that the responses to all the approaches to the UK Government that not only the Scottish Government but the Welsh and Northern Irish Governments have made in an effort to address labour shortages in the three countries have been less than helpful, what can Scotland do to address those issues? There was talk of establishing a migration service for Scotland. What can we do, given that the matter is reserved?

Ivan McKee: My colleague Neil Gray is progressing work on wider international immigration to do what we can within the constraints of the very restrictive immigration system that the UK Government has put in place.

That work forms part of the activity on the talent attraction and migration service.

I lead a group that is focused on attracting talent to Scotland from the rest of the UK. Scotland is a very attractive proposition. A net average of about 8,000 people per year come to Scotland—on an annual basis, about 8,000 more people come to work in Scotland than go in the opposite direction. We believe that we can increase that number significantly and attract more talent to come north by positioning Scotland within labour markets in the rest of the UK. We are working on that programme with a cross-industry body that represents a range of sectors that we believe have the opportunity to offer very attractive employment opportunities for talent from the rest of the UK. That work is well developed. The group has had three or four meetings, and we are pulling together various workstreams.

That is a great example of co-production with business and industry. We are starting from a very positive place, but we can build on that by adding many more thousands to that number and, by doing so, we can help to address at least some of the skills and talent challenges in the Scottish economy.

Graham Simpson (Central Scotland) (Con): Good morning, minister. The committee's report, to which you responded, was on the supply chain. It is clear that logistics are an important aspect of the supply chain. I was not a member of the committee when it did its inquiry, but I have read the report and your response. As has been said, it was a wide-ranging report. Part of it related to the logistics industry and, in particular, lorry drivers. During the pandemic, we could see that there was a shortage of lorry drivers. In fact, that is a long-standing issue that existed before the pandemic.

The committee identified two problems: the fact that we do not have enough lorry drivers; and the facilities that lorry drivers have to put up with, which are sometimes rank rotten. They really should not have to put up with some of the facilities that are out there. I am not necessarily talking about facilities in Scotland—there is a problem throughout the UK. I think that your letter to the committee refers to that. We need to know what is out there and what the offer is for lorry drivers in Scotland. We need to know what facilities there are.

First, have we started that piece of work? We have been talking about it for long enough. It should not be that difficult to find out what rest and welfare facilities there are in Scotland, and it should not be difficult to find out what condition they are in. We just need to get on with it and work with the industry to make improvements where they are needed.

Secondly, we need to know how many lorry drivers we need.

Ivan McKee: There are a few parts to that. I will hand over to Andy Park to talk in more detail about facilities.

In general, you are absolutely right. There is a challenge, although it is slightly less pressing than it was a number of months ago. As you know, there were issues with the UK-wide authority regarding testing, for example. That was a challenge. I think that there has been some movement there, but there is more to do.

It is important to make those careers as attractive as possible. We have engaged closely with the haulage sector to understand how we can do that. The rest and welfare facilities for drivers are part of that.

There is also the issue of modal shift and the attempt to get as much freight as possible on to rail, which to some extent lessens the need for heavy goods vehicle drivers. There is work with a cross-industry group, which I lead, to look at opportunities for sending more freight to and from Europe or beyond by sea, rather than trucking it down the length of the UK. We are looking at opportunities to expand the capacity for that. That will relieve some of the pressure on HGV drivers.

Andy Park can pick up on the rest and welfare aspects.

Andy Park (Scottish Government): We published the draft of the second strategic transport projects review in January. The final report is due by the end of the calendar year. Recommendation 38 of the 45 recommendations picks up on that—the recommendations are not in any particular order in the initial report. We carried out a public consultation in the spring, and we have been working up the immediate priorities. It would be reasonable to say that the continuing work on a freight facilities strategy is one of a number of key things that will be taken forward in the short term.

Graham Simpson: Has work been done to assess what facilities there are in Scotland and what their condition is?

Andy Park: A limited amount of work was done as part of the STPR, but much more needs to be done. We have not done that yet, but it has been planned.

Graham Simpson: Minister, as I said at the start, that does not seem to me to be a particularly difficult thing to do. Someone just needs to drive round Scotland's main roads, call in at places, and have a look. It is not that tricky. We just need to get on with it.

Ivan McKee: You and I will get a truck, drive around one weekend and have a look.

You are right: there is work to do. You will appreciate that that work is part of the broader portfolio brief, but I undertake to follow up that issue and respond to the committee on the specifics of what is happening and the timeline for taking that work forward.

Graham Simpson: Okay. I will move on to a slightly different area, but will stay on logistics. My question is about electric vehicles. I know that they are not in your brief, but this is about logistics, and we want to decarbonise transport.

The recent report by the cross-party group on sustainable transport highlighted the fact that deliveries increased during the pandemic, with more vans on the road, and that, although more people are switching their private vehicles to electric, we are actually seeing more petrol and diesel vans on the road. As a result, we need a modal shift in delivery vehicles, but the infrastructure to do that needs to be there, and it is not at the moment. What are we doing about that?

10:30

Ivan McKee: A big focus of the transition is on the modal shift in transport and the net zero impacts of that. In our recent report on Scotland's electric vehicle charging market, we identified what needs to be done, but we also very much recognise that that needs to be done in partnership with the private sector. Given the investment required, the public sector can do part of the work, but the bulk of it will need to be done by the private sector.

As a result, "A Network Fit For The Future: Draft Vision for Scotland's Public Electric Vehicle Charging Network" not only sets out our ambition to work with the private sector to develop the charging network but makes clear what would be commercially viable for the private sector to pick up itself and the gaps that the public sector would then need to fill. We have also, as part of that work, announced the electric vehicle infrastructure fund, which has £60 million of target investment.

However, you are right to suggest that that work needs to move forward if we are to enable that modal shift to happen. We absolutely understand that, and we need to work with the private sector to ensure that the investment is in place to deliver on that.

Does Andy Park want to comment?

Andy Park: Mr Simpson made an excellent point about the increase in van use during the pandemic. We are still looking at whether the shift is permanent. It looks like things have very much gone in that direction.

That ties into a whole bunch of issues, including the 20 per cent car reduction target and questions such as what a car is and what a light van is. That is all stuff that we are aware of, and we are exploring various options in a number of analytical exercises that we are carrying out as part of the 20 per cent reduction route map work.

We have also been exploring a number of relatively small-scale measures that could be scaled up, including, for example, community van sharing in rural locations and getting chambers of commerce to look at whether an electric van could be bought and used for a range of deliveries across a group of businesses. Those things are being looked at, and we just need to see how things develop as we recover from Covid.

The issue is certainly a live one for us. I also point out that private car kilometres have stabilised at slightly below pre-pandemic levels. Some of that is taken up with van use, but that reflects the shift from retail to online sales, which was happening anyway but has accelerated significantly. That said, things are dropping back a little bit, according to more recent data.

Graham Simpson: That is very useful. I might well take the matter up with you later, Mr Park, as you seem to have a keen interest in the subject.

Andy Park: Absolutely.

Graham Simpson: Good. Thank you.

The Convener: I call Colin Beattie, to be followed by Michelle Thomson.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Good morning. There are a number of areas that I would like to explore a little bit, but I want to begin by saying that many of the issues around supply chains and everything that goes with them seem to come back to the incredibly poorly managed hard Brexit that we have been forced to go through. The knock-on effect of that seems to resonate all the way through our papers.

Specific skills gaps have been highlighted to the committee in this inquiry and, indeed, in other inquiries that we have carried out. One such area is digital skills. I note that, in your response, you say that a report on the Scottish technology ecosystem review is due to be published in the autumn. Can you provide any update on that work?

Ivan McKee: On the Logan report? Yes. I met Mark Logan last week to talk about the progress that has been made. He is leading work on the education side of that. I point out that we have invested in new computer science hardware for schools, the digital start fund and digital skills pipeline projects, and we have also funded the

Digital Xtra Fund. A range of support for digital skills is in place.

There is also STACS—Scottish teachers advancing computing science—which is a teacher-led organisation that is designed to spread best practice and advise us on implementation of that aspect of the STER. Work is happening. Obviously, you will have read the report on the STER, which places great emphasis on getting the education piece right first, because everything kind of builds on and follows from that. The review recognises that there is much to be done on that.

Across the range of things that I have identified, we are implementing and making progress. As I said, a few days ago, I had a conversation with Mark Logan to talk about that and other aspects that we are taking forward, such as the tech scalars network.

Colin Beattie: Given the complexity of the digital requirements in the market, it must be quite difficult to provide a one-size-fits-all solution. We see in different segments of the market different needs and priorities, and there are different speeds of development. For example, I will just throw in e-commerce and the speed with which that is moving. How can we keep up with that to ensure that the skills that are being taught and passed on by our institutions and agencies are right up to date and at the correct level?

Ivan McKee: We need to unpack that a wee bit to identify what we are trying to address in different aspects. In schools, we are giving young people an appetite for computer science and a basic level of knowledge about how it works and what careers in computer science can be like. Obviously, diversity and inclusion are a huge part of that—it is about tackling the gender gap and broadening the reach across other groups that we want to be more widely represented in digital jobs. The work at that level is focused on giving young people an appetite for the subject. Clearly, what we are teaching them now and what they will use in their career in 20 years' time will be very different; we do not know what that will be.

That brings me on to the second aspect, which is how people who are in employment in digital jobs, and others who want to move into that later in life, are brought up to speed. Clearly, much of that work will be done by the industry. We are not in a position to say which coding language people need to learn for next year or which networks people have to be up to speed on for whatever happens to be needed. Much of that work will be done by the sector, so it is important that we work in collaboration with the sector to understand where technology is going and the latest technological developments. The higher and further education system is increasingly tuned into engaging with businesses to understand how we

can work more closely together, and that system has the agility to be able to address and respond to those needs.

As you say, it is a multifaceted issue. Across a broad range of businesses, perhaps among small and medium-sized enterprises and in other sectors, there is a lack of even basic digital skills and awareness. Therefore, another part of the agenda is about bringing people up to a more basic level of skills.

We are moving forward on all those fronts at the same time. You are right that it is a complicated and ever-evolving challenge. Of course, it is not just Scotland that faces that challenge—everybody in the world faces it.

Colin Beattie: I will move on to a slightly different issue. How is the cost crisis hitting Scotland's supply chain? How challenging for industry are the energy and material price increases? Are there particular sectors that are especially exposed to that?

Ivan McKee: The Federation of Small Businesses report that came out earlier this week highlighted the significant challenges. Some of the numbers in that are concerning. The vast majority of businesses—more than 90 per cent—are absolutely feeling significant pressure as a consequence of the situation. As we know, that is due to a range of factors. You have identified Brexit, and the Ukraine situation is obviously exacerbating the issues, including energy price rises, which have a knock-on effect across a range of commodities.

Some sectors are more robust than others. Some of the technology sectors and advanced manufacturing sectors are feeling the pressure, but not to the same extent as other sectors.

Some consumer-facing sectors such as retail, hospitality and leisure are finding the situation particularly difficult, and I engage with those sectors and others. It is true to say that a range of sectors have been impacted in different ways. Of course, for consumer-facing sectors, the issues relate not only to cost pressures, labour shortages and energy challenges but to potential downturns in demand as the cost pressures start to bite across the broader population, with people spending less money in those sectors. We work closely with such sectors to see what support we can provide.

We also work closely with the financial services sector. From its position, it has an overview of data across businesses and consumers, and we find that data very helping in informing our understanding of, and response to, the evolving situation.

Colin Beattie: The Scottish Government is clearly doing everything that it can to support businesses, but how much capability is in its hands to make a truly significant impact on costs? Are we a big player in that regard, or are things out of our hands?

Ivan McKee: As you know, many of the levers are controlled by the UK Government. We wish that that was not the case but, while it is, we work within that environment. In relation to welfare and social security support, it has been widely recognised by users of the service that Social Security Scotland has been doing a very effective job, but its focus, of course, is on only a small number of benefits. In terms of magnitude, the vast bulk of benefits still come through UK Government channels, and decisions on universal credit and so on have a significant impact on how people are supported.

Energy policy is, of course, reserved, which very much constrains what we can do. We are doing what we can through ScotWind and other initiatives not only to increase energy supply but to decarbonise. However, energy policy and many of the levers in that space are reserved.

Borrowing powers are also reserved. As has already been identified, the Scottish Government must work within very constrained limits. The situation is made even more unhelpful by not understanding what the limitations are, because, given the delay to the UK Government's fiscal event, we do not actually know what our budget is. We need to know that to allow us to operate within that budget, given our constrained borrowing powers.

Colin Beattie is right to identify that much of what is needed is driven by levers that the UK Government continues to control.

Colin Beattie: Given that this is a crisis for all our businesses, are any meaningful talks going on between the UK Government and the other three nations, especially Scotland, to try to manage the situation, reach a common result and make improvements?

Ivan McKee: As I said, the Scottish Government, in partnership with other devolved Administrations, has communicated with the UK Government fairly regularly over the past few weeks and months. We have encouraged and called on it to take specific steps, such as extending the period of certainty for businesses through the energy price cap and, as I mentioned, providing support through the social security system. We have called on the UK Government to take action in other areas, too.

As I have already said, the turmoil in the UK Government, with it taking the wrong turn and then U-turning on taxation and other policies, has been

extremely unhelpful when it comes to getting helpful and effective responses about what needs to be done.

Michelle Thomson (Falkirk East) (SNP): I will pick up on that point before I move on to my main questions. We all agree that the most recent fiscal event—which was, frankly, disastrous—will have an impact on existing supply chains, but it will surely also have an impact on the supply chains that the Scottish Government will be looking to develop through the likes of ScotWind. Are you concerned about that combined with rising costs, a potential inability through our labour policy to attract key skills that we might need, and the limitations on proper borrowing powers?

10:45

Ivan McKee: Yes, of course I am. We are focused on doing everything that we can but, as we already identified, many of the levers for Scotland's general energy policy are reserved, so the challenge is what we can do there. It is about building those supply chains in an environment where there is uncertainty at a macroeconomic level, a lack of support and challenges on the skills side. Cost pressures are obviously difficult, but we are in this for the long haul and we are working with those businesses to strengthen the supply chains and take advantage of the significant spend that is coming Scottish businesses' way, through the work that we have done with developers to roll out the ScotWind projects.

Michelle Thomson: It might be picked up by other members, but it is also clearly an area of interest in relation to creating a future.

I will ask an open question about green free ports. What are you able to tell us about the current status and timelines?

Ivan McKee: Aye, so—

Michelle Thomson: Obviously, I ask that without seeking to compromise you.

Ivan McKee: We worked through that process and had our four red lines, and we were happy that the UK Government eventually came to accept that those four red lines were valid and agreed with us that the green port projects should be taken forward on the basis of net zero commitments, fair work commitments, equal funding and two ports in Scotland.

We went through a very robust process earlier this year, and the teams working behind the scenes did a great job to evaluate the bids that came in. We had hoped to make that announcement in the summer, but it is a joint Government approach and, since then, there have been a number of changes of personnel, Government, focus and direction at Westminster.

People say that we should work more closely with the UK Government, and we are doing so, but it is not quite clear who that is at any given point in time, which makes it kind of hard to work with. We had hoped to make announcements in August, but we are now in November. We still hope to make announcements very shortly, but we have been saying that for three months now. The ball is not in our court.

Michelle Thomson: That is absolutely understandable, because of all the changes at the UK Government level.

In terms of specific incentives, are you able to give any more flavour at a generic level of some of the themes or, again, is that all wrapped up under your future announcements?

Ivan McKee: There is clarity on the offer around green ports, in terms of land and buildings transaction tax and the UK Government's commitments on national insurance contributions. That is already clearly identified, and we managed to secure the same offer that was made to English ports.

One of the issues around the margin on that is that much of that was determined on fixed time periods with dates. Clearly, because of the delays, we are looking to see whether some of those dates can be extended, to make sure that we get the full benefit.

Part of the complexity has been the Truss Administration announcements on investment zones, which the new Administration is having a look at, to understand where it wants to go with that proposal. Even under the Truss Administration, there was a lack of clarity on what an investment zone was and what it would deliver. At one point, it looked as if it might even have more benefits than a green port or free port, which was all a bit strange. We are waiting for clarity on what that process looks like and whether it even exists. That is another dimension of complexity and uncertainty on which we are waiting for some clarification from the UK Government.

Michelle Thomson: I think that my colleague, Maggie Chapman, is going to ask about investment zones.

I have a final question. There were concerns, which continue to rumble around, about the potential for tax avoidance by using free ports. I am looking at a University of Portsmouth report from last year in the *Journal of Money Laundering Control*, which it makes the case over that misuse. As we know, the UK loses £267 billion each year to money laundering and financial crime. Given that regulation of that area is entirely reserved to the UK Government, have you had any discussions with the UK Government about what steps it is going to take to make sure that free

ports are not used for tax avoidance? That is a loss to ordinary people in the street, in terms of doctors, teachers, nurses and public money generally.

Ivan McKee: Obviously, that is a significant issue. As you rightly said, it is a reserved area. As we move forward on the constitutional agenda, that is an area of regulation on which it is important that we are clear about where we would position ourselves following independence, and the opportunity that we would take to use those powers to address such issues. We would have a very different approach. It is important that we take forward that work.

The UK Government will control the free ports in England. We can look at the effects and impacts of that but, as I said earlier, we had clear red lines around the awarding process and the operation of green ports in Scotland. Those red lines included a number of factors relating to net zero, fair work and controls to make sure that the process was such that the risk of the dangers that we are all alive to was minimised.

We remain focused on the issue. As we roll out the green free port programme—which I hope that we will do sooner rather than later—you can rest assured that we will continue our efforts to make sure that there is no degradation of standards across a range of policy areas, including on tax evasion.

Michelle Thomson: On conditionality, I am optimistic that the businesses that trade out of whatever Scottish ports are allocated green free port status will have equitability at their core—in the context of entrepreneurship, I am thinking about women-led businesses and women business representation. Am I right to be optimistic about that?

Ivan McKee: That is a good question. With regard to conditionality, we have been explicit about the net zero aspects, payment of the real living wage and the fair work agenda. That was an important success that we secured in the programme. It was great to see the bids that came forward. Without giving anything away, I can say that they were all very focused on those aspects and were seized of the need for that to be a critical part of their offer. I think that we are starting from a good place in that respect.

More broadly, on women-led businesses and other areas where we have an agenda to move forward on entrepreneurship by tackling diversity and inclusion challenges, although that is not explicit in the green free port requirements, we continue to take forward that agenda across a range of economic activity.

Michelle Thomson: You can be sure that I will continue to ask about that.

Ivan McKee: Indeed.

The Convener: Before I bring in Maggie Chapman, I want to ask about the economic inactivity figures that you quoted. In October, the inactivity rate was 21.6 per cent, which was a decrease of 0.1 percentage points on the period from December 2019 to February 2020, and a decrease of 0.2 percentage points over the quarter. You said that that very slight percentage decrease was equivalent to 20,000 people. Is that right?

Ivan McKee: Yes. The total number of economically inactive people is 21.6 per cent, which is 750,000 people or thereabouts.

The Convener: I think that there is a 0.1 per cent difference between the Scottish figure and the UK figure. Our rate is 21.6 per cent and the UK rate is 21.7 per cent.

Ivan McKee: That is correct.

The Convener: Previously, our rate was higher than the UK's.

Ivan McKee: Our economic inactivity rate was higher for quite a long time, but it has been on a downward trend and has now gone below the UK rate.

The Convener: There is a difference of 0.1 per cent. The percentage increase in activity is quite small, but it is equivalent to 20,000 people. Thank you for that clarification.

Maggie Chapman: Good morning, minister. Thank you for being here, and thank you for what you have said so far.

You have partly answered my first question, which is about investment zones. In the past 12 hours or so, it has been announced that they are likely to be scrapped.

Ivan McKee: Oh! I had not even heard that. I was too focused on preparing for this meeting. Thank you for that information.

Maggie Chapman: Various discussions are taking place about what might replace them, such as urban regeneration plans and so on. I appreciate that it is a very moveable feast. What will your priorities be in your discussions with the UK Government around the consequences for Scotland? If we are not going to have investment zones in the low-tax, low-regulation space, what will your priorities be with regard to equivalent support in Scotland?

Ivan McKee: That is a great question and it gives me the opportunity to talk through some of the background work that we have done.

In our engagement with the UK Government on investment zones during the past few weeks, we

had a good look at our regional economic policy direction. Some great work has happened on that: the work by David Bell has been fed into the process as well as the work that we are doing on regional economic partnerships—and I have met with those partnerships, as a group, several times, to ensure that they are plugged into the national strategy work. The regional economic strategies that they are pulling together tie in with the work that we have already done on regional prospectuses to focus on regional strengths in specific sectors, and on how we can align that with our investment activity on a Scotland-wide level and the ways in which Scottish Development International can take it on to the global stage. A lot of that is coming together in a coherent and helpful way. Most importantly, it is led and driven by the regional economic partnerships, which have identified their strengths and work with us and the agencies to take that forward.

We saw enterprise zones in that light, and we had to decide how they would fit into the existing work not as something separate but as another tool that would help to drive forward the regional economic development agenda, which involves working closely with local partners. I am not giving much away here, because it is clearly not happening anyway, but our approach to the zones was to continue to work with REPs to allow them to identify which sectors, clusters and geographies in their regions were most able to benefit from them and how they could benefit from the many excellent clusters that we already have across many parts of the country. That continues to be our approach.

In answer to the part of the question about our existing enterprise areas and what we do with them, we have extended them, but we need to make some decisions on to what extent we should build on those, develop them or refocus them. Again, we will do that work along with regional partners.

Maggie Chapman: Thanks; that is helpful, and it ties in to my second question. You spoke about the important role of REPs and of using the local knowledge that they provide to identify sectors and clusters that could benefit. However, there is potential for tension between the local, regional and national levels on both investment and identification of sectors, in particular when we try to match that work up with some of the skills gap-identification work that you spoke about.

You said that the skills inquiry will report next spring, but can you give us any indication of whose priorities will win out? The types of investment and approaches to skills and supply chain issues for an energy economy are very different to the investment and skills focus that we would need for a hospitality economy, for instance,

and there are going to be distinct geographical tensions in that. How do you see those conflicts and tensions being resolved?

Ivan McKee: Each of the eight REP areas have increasing sharpness of clarity about their regions. In the north-east we work with Opportunity North East—ONE—and others, including the REP, on that, and the work that they have done means they have clarity about their energy sector and also the food and drink, tourism and life sciences offerings, so they know that there are three or four areas in which they have real strengths. We can look at each part of Scotland and say: “This area is good at these three or four things and that area is good at another three or four things.” That work is really taking shape, and I will ask Carron Flockhart to comment on it.

The skills pipeline being aligned to that is important, but I think colleges get that. They understand the businesses and sectors that they work with in their regional economies and know what is important in any given sector. You are right that the jobs will range from very advanced, PhD-level jobs—such as those that involve working with businesses that are focused on the BioHub in Aberdeen—to entry-level jobs in hospitality, which are also very important, and training will be required to be able to fulfil those roles effectively in an increasingly digitised economy.

All of that has a role to play, and it is fair to say that the work that we are doing on the skills agenda is increasingly making sure that there is alignment at Scotland level and at regional level.

11:00

Carron Flockhart: The national strategy for economic transformation’s skilled workforce programme focuses on aligning provision with the needs of employers, whether local or national. A lot of work is under way through the shared outcomes framework, and there are various pieces of work that lead into education and skills reform. The minister mentioned the independent review of the skills delivery landscape, and the independent lead is expected to make some recommendations in the spring. All that work focuses on ensuring that we have that pipeline of workers that we will need in the future.

Maggie Chapman: I have a couple of other questions, but perhaps I can ask those offline.

The Convener: Thank you; I appreciate that.

Colin Smyth (South Scotland) (Lab): I turn to the important role of Government procurement in securing local supply chains. In response to the first question, minister, you talked about building robust supply chains to deal with the pandemic, and I want to touch on one example of a response

to the pandemic. A company that is mentioned in our report and that you are very familiar with is Alpha Solway. We said that it

“has been cited as an excellent example of business, working with the public sector, to rebuild Scotland’s economy and create a more sustainable and resilient supply chain.”

You visited the company in Dumfries a few months ago, and you are quoted as saying that

“their expansion has created over 300 new jobs, underlining the importance of the manufacturing of vital personal protective equipment to our economic recovery.”

You went on to say:

“The £4.8 million South of Scotland Enterprise investment demonstrates a commitment to secure the long-term future of manufacturing in Scotland whilst showing how public and private sectors can collaborate to address challenges caused by the pandemic.”

However, as you know, that company has just shut one of its Dumfries plants, and there are not 300 new jobs; there are actually only a dozen. The company no longer produces PPE because the national health service in Scotland ended the contracts for that. I understand that that was one of the cuts that the Government recently announced.

Everyone accepts that demand for PPE was going to fall—that includes the company, which is refocusing its work—but I do not think that anyone, including you, fully expected the cliff edge, with contracts ending overnight. How do such decisions show a commitment by the Government to building resilient supply chains, particularly for a product such as PPE? It is a real challenge, as it was during the pandemic, to make sure that we have the local supplies that we need. That is not a great example of building long-term resilient supply.

Ivan McKee: It very much is, and Alpha Solway did great work during and after the pandemic. We engaged very closely with it to understand the situation of the business. The reality is not that we are buying PPE from somewhere else in Scotland; we are just not buying any PPE. Everybody understands that. We are all sat here not wearing masks, but that would not have been the case six months or a year ago. The demand for PPE is just not there. Obviously, we are not going to use public money to buy a product that has a lifespan, put it on shelves and wait for it to expire when we do not need to do that. Demand is the issue.

The strategic long-term intent is clear, and a big part of the investment that Alpha Solway has made with Scottish public sector support has been in its melt-blowing facility, which allows it to vertically integrate back up the supply chain. That means that its supply chain is more resilient, that it does not need to rely on others for material supply

and that the facility, with that significant investment, will be there for the future, so as and when PPE requirements increase again, conversations will take place and orders will start to flow again.

I am very clear that, if any parts of the public sector outside of our scope continue to purchase PPE from outside the Scottish supply chain, I would be interested in having a conversation with them. I have brought that to the attention of the rest of the Scottish public sector in writing, so that we can understand whether that is happening, but we have seen no evidence of that.

Graeme Cook, do you want to comment on any other procurement aspects?

Graeme Cook (Scottish Government): Public sector procurement policy has a clear focus on local economic wellbeing. That is a cornerstone of procurement legislation in Scotland. I have a variety of numbers covering spending in areas such as SMEs and the third sector that show significant success in Scotland. There is an ongoing focus on securing and growing indigenous supply chains, as the minister mentioned, particularly through initiatives such as the supply chain development programme.

Colin Smyth: I will come back to the wider policy issue, but I want to follow up on the comments about Alpha Solway. Minister, you said that investment will give the company a base for the future, but that is not much consolation for workers who, at the height of the pandemic, put themselves at risk to produce the PPE that our nurses and doctors needed to keep themselves safe. Those workers have basically been made redundant. They do not have a job in the short term because of a cliff edge that absolutely no one expected.

You said that we are not buying PPE any more. Are you telling us that no PPE at all is being purchased by the public sector in Scotland? Anyone who walks into a hospital has to wear a face covering, and I presume that the police and fire services are still purchasing PPE. Why did you say that no one is purchasing PPE? I presume that they are. If so, is all the PPE that is used in the Scottish public sector being manufactured here in Scotland?

Ivan McKee: First, without going into too much detail, orders for Alpha Solway would have been placed based on demand. There would have been a lead time, but it would have been clear that there were no orders after that. It was clear when the demand would end.

PPE usage is much reduced compared with what it was previously, as we all know. As a result of resilience strategies, and for many other reasons, we have significant stockpiles of PPE,

which are being used to meet public sector demand.

I have made it clear that, with regard to the parts of the supply chain that are visible to us, such as those relating to the Scottish Government or National Services Scotland through NHS Scotland, nothing is being purchased at the moment that Alpha Solway could supply. I have written to the parts of the public sector where we do not have visibility to ask whether they are purchasing PPE, so that, if they are, we can have a conversation about that being manufactured by Alpha Solway. To the best of my knowledge, no one else is purchasing PPE that Alpha Solway could manufacture. If you are aware of any examples, or if anyone else is, I would be interested to hear about those so that we can follow up on them.

We have been proactive, both in what we have done in the areas that we control and in the strong signals that we have sent the rest of the public sector about the critical importance of the Scottish supply chain. We have worked with public sector procurement to ensure that everything that can be made in Scotland is made in Scotland.

Are you saying that we should spend public money to buy stuff that we do not need in order to keep people in jobs? That is a point of view, but the current pressures on public sector finance mean that it would not be a good use of public resources to buy stuff, keep it and then throw it away later. That would not make sense.

Colin Smyth: I am saying that I want an absolute assurance that all PPE that is used in the public sector in Scotland is actually manufactured here. It seems that the Government is not being entirely clear about that. It is surprising that, just a few months ago, you were talking about the creation of 300 jobs and then, all of a sudden, that stopped. We all knew that supplies would be reduced as we moved out of the pandemic, but I do not think that anyone—not even you—expected that cliff edge, given the comments that you made just a few weeks ago about the future of that company. The workers who have lost their jobs were certainly not expecting that cliff edge.

I am curious whether you think that our procurement rules have been adequately changed to increase reliance and focus on local supply chains. The example of PPE suggests that some of that is still being produced outwith Scotland. That, to me, is an example of something that should be produced entirely in Scotland. There are lots of other products that could be produced around the world, and I am not sure that our procurement rules emphasise that, if something can be made in Scotland, the public sector should purchase it in Scotland.

For example, if a purchaser in a local authority, the police or the fire service wants to buy PPE, does the system show where it is manufactured? It might be said that the PPE is supplied by a company in Scotland, but is where the PPE is manufactured actually said? How much information is provided about where products are manufactured? How much emphasis is put on ensuring that the public sector buys products that are produced in Scotland when it can?

Ivan McKee: That is absolutely done. I worked in manufacturing for 30 years, and I understand how this stuff works. We are 100 per cent focused on that, relentlessly.

You will know that it is illegal to specify what you have just asked us to specify because of the World Trade Organization's agreement on Government procurement, or GPA, rules and our international free trade agreements—the European Union trade agreement and so on. We must have an open market.

We do everything that we can to ensure that as much of the product as possible is manufactured in Scotland. We make that visible. We produce guidelines on that, and we work—I refer to the importance of the investment in Alpha Solway—to ensure that businesses and supply chains have the capacity, capability, expertise and technology to compete in a global market and win contracts.

Alpha Solway has done a great job in winning contracts. It did that fair and square, and it beat competition from around the world. That is because of the support in training, investment and so on from the Scottish public sector.

As I said, all of that has to be done within the rules. That is the legal reality of the system in which we operate. However, as Graeme Cook said, our success in that regard has been quite significant. In Scotland, 47 per cent of the spend in public sector procurement goes to SMEs. That is significantly in advance of anything that is happening in the rest of the UK, where the percentage is in the 20s, and across the EU, where the average is somewhere in the high 20 per cent range.

We have made significant progress in that regard, and the results demonstrate that. However, the focus on that continues to be relentless. We look for every opportunity through the supplier development programme; our round-table discussions with SMEs to understand the challenges for them in accessing the public procurement process; working with partners across the public sector; and the work that we are doing on the Scotland innovates portal, which we have just launched. That invites Scottish businesses with innovative solutions to public sector challenges to put those online so that we

can assess them and find a public sector procurement route for them. We look for opportunities through the work that CivTech does in putting out public sector challenges.

We are relentless on all that stuff. We have tremendous focus on it, and I regularly meet procurement officials to take work forward. As members understand, all of that is, of course, done within our legal restrictions.

Colin Smyth: A follow-up response would be really helpful, minister. You said that you are making inquiries. It seems quite strange that, so many years into a pandemic, you are making inquiries about whether the public sector, across the board, is purchasing PPE entirely within Scotland. It would be really helpful if you wrote to the committee to explain the outcome of your inquiries—

Ivan McKee: Absolutely. We will do that.

Colin Smyth: —and to give an assurance that it is all being purchased and manufactured—

Ivan McKee: We do not have the power to tell a local authority, for example—

Colin Smyth: You have the power to ask it. Perhaps there is a debate to be had. In relation to the police, the fire service and other national bodies, how much of a central approach is there to something as important as PPE? It would be really helpful to know that a product is absolutely—100 per cent—being purchased by the public sector from manufacturers in Scotland. It would be good to get the outcome of your inquiries into that.

Ivan McKee: I will respond to the committee and let it know the outcome of that inquiry. As I have said, if a local authority decides to purchase something, we are not in a position to tell it where it should buy it from. If we did that, others would say that we should not be doing that. I have written very clearly and strongly to make those points to all public sector authorities, and I would be very happy to update the committee on any responses that we receive in that regard.

The Convener: Seventy-four per cent of contracts through the public procurement system were Scottish. The committee welcomes that. We asked whether the data could be improved and whether we could see the data by region or by a smaller base rather than data for the whole of Scotland. Although we recognise the value of the contracts that have been awarded across the whole of Scotland, we want to see the potential for more value to local economies. Is it possible to get that information?

Ivan McKee: I ask Graeme Cook to pick up on the details of the data.

11:15

Graeme Cook: Each year, we publish the Scottish ministers' annual procurement report, which includes breakdowns of public procurement expenditure by local authority area and by Scottish index of multiple deprivation quintiles, so that we can see where the money is going in terms of disadvantaged to relatively prosperous regions of Scotland. We also publish the split between urban and rural classifications, so—

The Convener: I am sorry to interrupt. It would be helpful if you could share that with us but, for example, in relation to Mid Scotland and Fife, which I represent, does the document tell us whether Fife Council's contracts are going to Fife companies or companies in more deprived areas and so on? Do you understand what I mean?

Graeme Cook: The annual report gives the figures by local authority area. The aggregate report does not give the detail by public authority. However, under the Procurement Reform (Scotland) Act 2014, public authorities have a statutory duty to publish annual reports on where their expenditure goes and what they are doing to support SMEs, the third sector, supported businesses, economic growth and socioeconomic factors right across the piece.

The Convener: Does anybody bring together those two types of reports? The committee probably wants to have the information in those two types of reports combined. It would be helpful if you could share the reports that you have referred to with the committee.

Graeme Cook: Absolutely. The Scottish ministers' annual report is the aggregation of all the individual reports from public bodies from right across Scotland. The requirement to report kicks in at £5 million of annual expenditure.

The Convener: Any bodies that spend below £5 million are not covered in that report.

Graeme Cook: If annual expenditure is below £5 million, there is no statutory duty to report. However, we encourage that nonetheless, and we consider it to be best practice to publish an annual report.

The Convener: That is helpful. Thank you.

Fiona Hyslop (Linlithgow) (SNP): Good morning, minister, and thank you for your letter responding to our report. Of course, you also gave evidence to the committee during the inquiry, so this is the second time that we are engaging with you on the resilience of the supply chain in Scotland. It is a continuing issue, not least because of the on-going issues around Covid, as we have just heard, as well as issues around the hard Brexit and the impact of the situation in Ukraine.

I will focus on manufacturing, engineering and construction. We know that we cannot micromanage private markets, and the international obligations are understood, but we can create incentives. The committee is interested in the extent to which the experience of the disruptions that we have talked about has influenced change in supply chain markets generally.

On construction, we have heard about real disruptions over the period and about a desire in the sector to be able to source more locally, if that is possible. That is resilient and contributes to achieving net zero by tackling the issue of carbon miles. What improvements have there been in that regard?

In relation to timber—we have a debate in Parliament this afternoon on forestry and net zero—what improvements have there been in local sourcing of timber? Can we use business regulations in that regard? To what extent can you influence pan-Government measures that can help, such as business regulations and measures on low-carbon materials? What is the potential for some kind of specification of carbon miles? That might have to be internationally agreed, but it is probably the direction in which we are going.

Ivan McKee: I will let Dermot Rhatigan talk specifically on timber and the broader stuff that we are doing in that regard. Timber is one of the areas of focus in the supply chain development programme. In Scotland, we manufacture more of our housing stock from timber than is the case in the rest of the UK. We see opportunities to do more of that and to increase embodied carbon. There are technical issues, but Built Environment-Smarter Transformation, or BE-ST, which is the construction innovation centre over in Blantyre, is leading the way on research, and is working with universities and others on mass laminated products and other products that can be utilised more extensively in the supply chain.

I have engaged with sawmills and others on what they can do to increase output. One of the challenges that we have with timber is that it has probably the longest lead time of any item—it has a 30-year lead time—which means that we will not see the results of any decisions that are made now for a very long time. I should say, though, that Scotland's forest coverage continues to increase, which is to be welcomed.

It is perhaps worth mentioning other factors that highlight the complexity of this issue. For a start, there is the clear biodiversity challenge of which species you choose to grow, given that what you grow in order to mass produce housing stock, say, might not be what you need to grow for other purposes or might not be part of the balance that you would want from a biodiversity point of view.

Those things have to be considered, too, and they are part of what we need to think about with regard to native species. We are all committed to getting that balance right.

Further downstream, there is also the work that is being taken forward by my colleague Patrick Harvie and others on heat in buildings and the decarbonisation of property as part of the net zero agenda. Making changes to regulations to encourage the Scottish supply chain will, of course, be a factor, but the primary concern will be changes that deliver the best cost-effective solution to the net zero challenge. Getting that balance right is something that we are working on across Government, but all of that work is happening so that we can move forward as fast as we can within the current constraints.

Fiona Hyslop: Before you bring in Dermot Rhatigan, minister, I want to ask about the concept of carbon miles becoming more of a factor in the private and public sectors. What engagement are you having on that? Clearly such an approach makes sense; it will help to deliver net zero, and it is something that is not just local, but national and international. Where are we in Scotland in looking at that issue?

Ivan McKee: I will let Graeme Cook comment on that specific question in a moment, but you are right to say that international work is happening at European Union level and elsewhere on carbon mechanisms. There will always be a challenge as to how far you can go with that before you hit other restrictions that we have talked about, such as WTO procurement rules, but we are keen to move things forward, where we have the scope to do so.

Graeme, do you want to give some more detail on that?

Graeme Cook: Carbon miles can be considered as part of whole-life carbon counting. You cannot just isolate carbon miles from everything else in the lifetime of a product, as that would be close to being a proxy for a requirement to buy local, which would trip over the WTO rules.

Whole-life-cycle carbon counting is incredibly difficult to do, and it has to be done in a proportionate way to avoid putting an unreasonable burden on SME bidders, in particular. Indeed, counting with mechanisms that have not even been agreed internationally would put a sizeable burden on businesses bidding for work. It can be done, but it is complicated, and instead of counting carbon in particular, Scottish public procurement policy is taking a broader and more nuanced look at what exactly is being done to reduce environmental impacts not only from carbon but by reducing waste, making less use of rare-earth elements and so on.

Fiona Hyslop: Just because it is complicated and hard, that does not mean that we do not look at it and see what we can do, as it might well be the right thing to do.

Graeme Cook: Absolutely.

Fiona Hyslop: Perhaps I can bring in Dermot Rhatigan for an additional comment on timber. Dermot, can you also talk about cement and how realistic the approach is in that respect? If we can crack the issue of cement in an environmental impact sense, it will give us a dual hit with regard to local supply—

Ivan McKee: Actually, I have had conversations with Scotland's cement industry about what can be done.

Fiona Hyslop: Please share.

Ivan McKee: Green cement is obviously a focus for the sector. It presents a huge investment and technical challenge, but we have had conversations with the sector on how we move forward with it.

Dermot Rhatigan (Scottish Government): The big cement works at Dunbar has recently invested in reducing the amount of gas in the kilns. Individual companies are making efforts to reduce carbon in their processes. The same business in Dunbar is also making more use of rail to ensure that its product is not being moved around on roads as much.

For the sector, moving from materials that it knows and understands to new materials is a bit of a challenge, because companies have to give warranties to the people that they are selling to. If they have been using materials that they know, such as steel, cement and concrete, and are moving to wood or other materials, they need to do a bit of thinking about that, because they will grant warranties for those buildings for 10 or 20 years and there are insurance implications. There is a bit of resistance to change. It is not always for bad reasons but because people want to be convinced that the materials to which they are moving will do the job on site.

Great innovation is going on through the innovation centre that is now called BE-ST. It is doing a lot with clients, builders and others to show what other materials can be used, particularly timber. However, it takes a while to change, because people need to have confidence in the materials.

Fiona Hyslop: That is why the Government can have a role. We are interested in what it is doing and there is clearly potential for it to address the matter through building regulations. We want assurance that you are not just being passive in the matter but that the Government is taking an active role.

Dermot Rhatigan: We speak all the time to people about what we could do on specifying techniques for building, for instance. However, any change that we make needs to be evidence based, so we have commissioned evidence on various things that might lead to changes in what we specify for our affordable housing programme and so on.

Fiona Hyslop: To what extent has there been a step change for engineering companies because of the continuing crisis that we face as a result of, for instance, Brexit? We got quite a blunt view from the chair of the National Manufacturing Institute Scotland that, over decades, Scotland had lost key manufacturing and engineering skills. Therefore, if we are trying to build resilience and areas for growth, not least in renewable energy, we need to undertake quite a lot of development.

Looking at NMIS's work on low carbon, to what extent has there been a shift of the dial through its impact on the number of companies that it is working with? How do we tackle that manufacturing and engineering challenge? It is clear that centralisation across the UK and internationally has meant that we do not do as much of that kind of work as we would have done previously. We cannot micromanage everything, but to what extent does that mean helping such companies to develop?

Ivan McKee: To finish off the previous point, work is taking place on building regulations. The 2024 new-build heat standard is being put in place. Work is happening on that all the time and standards have been updated to take account of the factors that we have talked about.

The decline in manufacturing has been an issue in western economies, particularly the UK, over decades, as we know. It was an issue when I studied manufacturing and engineering in 1980 and it continues to be one.

On what we are doing about that issue, it is important to recognise that the solutions are not things that you turn on like a switch—they take a long time. The technology, investment, expertise, accreditations and market credibility all take a long time to build up. From our perspective, it is about identifying where Scotland has the opportunity to have globally leading positions in specific manufacturing sectors and then to double down on support and build on that through a combination of inward investment and, importantly, growing indigenous supply chains and businesses in partnership.

An obvious example is the small satellite manufacturing cluster that has been built up over the past decade or two and is now a world-leading sector. We continue to get additional inward investment into that and to grow those businesses,

but there is also a really strong focus from all parts of the public sector to support that ecosystem.

We have talked about the ScotWind investment, to which developers have committed £28 billion. The issue is not getting the developers to commit the money; it is finding somewhere to spend it, because you need £28 billion-worth of capacity in the Scottish supply chain to deliver on those projects.

11:30

We are working with hundreds of engineering businesses in Scotland that are part of the clusters in the sector. We are working with Scottish Engineering and others in relation to engineering businesses that have not looked at the energy supply chain or other sectors as opportunities to diversify. That will be done through a combination of information, encouragement, skills support, investment support, networking, accreditation and so on. All that needs to click to get it to work, and we are hugely focused on doing that. NMIS is doing a solid job at the centre of that ecosystem, but a lot of other things are happening around that to make it deliverable.

Fiona Hyslop: We hear from the engineering sector in particular that businesses might not get contracts for five years, but they must start building capacity now. Therefore, the issue is what, if anything, the public sector can do—I am thinking of something like a bridging development—to enable them to build up capacity and skills in their companies, so that they are ready to get their share of the contracts. Some of the contracts will come sooner but, as some of them might not come for some time, the public sector has a role in building resilience—otherwise, we will not have the supply chain that we want.

Ivan McKee: Absolutely. Specifically on ScotWind, there are a number of parts to that. The big international players absolutely understand that and they are dealing with it. Their investment decisions on what they will make in Scotland and what they will make elsewhere are driven by a number of factors. I have given them reassurance and as much clarity as we can, given that it is a complicated scenario that has a lot of moving parts—consenting, planning, grid connections and a range of other things all have an impact, in addition to the supply chain and energy aspects.

Many businesses, including at least 80 per cent of businesses in the oil and gas sector, are moving into the renewable energy supply chain. We are working closely with them to give them information, provide the technology and connect them into the network, so that they can take advantage of that. We are also supporting other businesses and sectors to move into the area.

It is a complicated piece of work. You are right that, in some cases, businesses will have to make investment decisions in advance of knowing what will happen. The work that we and the enterprise agencies are doing supports that. The Scottish National Investment Bank is providing support in some cases, too. It is working with private sector investors. We are keen to make sure that, where there is a gap and something needs to be done to ensure that the supply chain is robust and ready, we are engaged at a detailed level to make that happen.

Fiona Hyslop: Who leads on that? Is it you or Michael Matheson?

Ivan McKee: We work on that together. Yesterday evening, we had a call on that specific issue and about how we align the work of the public sector to support that. Michael leads on the energy side, and I pick up things on the supply chain side.

Jamie Halcro Johnston (Highlands and Islands) (Con): The committee report featured some criticism of

“the cluttered landscape of policy commitments, funding streams and other initiatives”

in relation to the transition to net zero. The Scottish Government response says that

“bespoke advice and support for businesses—including specific support for SMEs—is also available through the enterprise agencies, Zero Waste Scotland, Business Gateway and the Scottish Environmental Protection Agency.”

You went on to mention the investment in the green jobs fund, the green jobs skills hub and so on.

Does that not sound like part of the problem with a cluttered landscape, rather than an answer to it?

Ivan McKee: We are conscious of the need to ensure that there is clarity on funding streams from Government and from agencies, that we align those and that we minimise any potential for confusion or clutter within that.

There is an action in the national strategy to look at business support and to understand where funds do similar jobs. That is to ensure that we have the right number of funds to deliver what we need and that we do not make the landscape any more cluttered than it needs to be.

However, it is important to recognise that different businesses are looking for different types of support for different challenges. We have focused on different challenges and opportunities in different sectors. To some extent, there will be a number of support mechanisms, but we are absolutely seized of the need to make that as simple as possible. We are doing that from a business perspective, so that businesses can

navigate things more easily, and we are doing it from a public sector perspective, to make sure that things are as efficient as possible on delivery.

Dermot Rhatigan and others are working on a specific programme to streamline the funding streams, and I am happy to talk more about that if you would like me to go into more detail.

Jamie Halcro Johnston: It is encouraging that you are looking at ways of streamlining. Perhaps it would be useful if you could provide us with an update, at some point, on how the work is progressing and whether a more streamlined process is being provided.

Ivan McKee: I would be delighted to do that.

Jamie Halcro Johnston: Thank you.

I would like some clarification on issues relating to the STPR and infrastructure. I am sure that you, as business minister, will recognise the importance of dualling the A9 between Inverness and Perth and of dualling the A96. Those are vital public infrastructure projects that could provide a massive boost to the north of Scotland, particularly my Highlands and Islands region.

In a debate last week, your colleague Jenny Gilruth, the Minister for Transport, said that the Government is still committed to dualling both roads, as promised. Will you confirm that that is the case and that there will be no downgrading of those commitments on either road?

Ivan McKee: Far be it from me to criticise the minister with responsibility for that policy area. I think that what the Minister for Transport said stands, but I will ask Andy Park to comment more specifically on the projects.

Andy Park: As you will be aware, both projects came from the strategic transport projects review 1, and we are about to publish the final report for STPR2, which will build on that by providing an additional programme of investment for the next 20 years.

After we have published STPR2, we will publish a delivery plan that will combine the bits of STPR1 that are not finished yet with the recommendations in STPR2. Initially, the hope had been to publish the delivery plan at the same time as the STPR2 final report but, given the uncertainty about future capital budgets, it is likely that the delivery plan will be published at some point in the spring, when there is greater clarity in relation to capital budgets. The rationale for that is that, if we published the delivery plan before the Scottish budget was finalised for next year, we would probably have to change it, given the great amount of financial uncertainty. That is not completely locked in, but that is what is likely to happen. The delivery plan will include existing

projects, including those relating to the A9 and the A96.

Jamie Halcro Johnston: Thank you. It is the bits that are not yet finished that interest me. The minister will be aware that there has been slow progress on both projects. Dualling of the A9 is meant to be completed by 2025, and it is clear to everyone that that target date will not be met, but we have not heard that yet from the Scottish Government, despite it being obvious to anyone who uses the road. Will you confirm that the 2025 target will be missed? Is a revised timetable for completion being prepared? If so, will it be part of the new delivery plan in April next year?

Ivan McKee: As I have indicated, the matter is outside my portfolio, and I do not want to comment on it without having the full information. The Minister for Transport has commented on it, and I will invite her to respond to your specific questions. I will do that as a matter of course following the meeting. If you want to put a request in writing, I am sure that she will be delighted to answer your questions.

Jamie Halcro Johnston: I am grateful for that, but the issue of delivery has been raised with various ministers a number of times over the past few months—perhaps longer. From a business point of view, you will recognise how important the roads are, particularly the A9, to the Highlands and Islands, all the way up to Orkney, where I am from. However, the entirety of the road is meant to be dualled within two and a half years, and we have not had confirmation—

The Convener: I am sorry to interrupt, Mr Halcro Johnston. You have made your point well, and the minister has given a response. I do not think that you will get a different response from an additional question. If there is another area that you would like to ask about, you can ask another question. If not, we will move on.

Jamie Halcro Johnston: I was trying to get clarification on something that is vital to—

The Convener: I appreciate that, and I appreciate your taking the opportunity to raise it at the committee. However, the minister has indicated that he will ask the transport minister to give us a response on the specifics, and he is not placed this morning to give you the commitment that you are looking for.

I do not think that we will get any further on that point. If there is another issue that you wish to raise, I can give you time to do that; if not, I will move on.

Jamie Halcro Johnston: No, that was the area that was covered in the report that I was interested in, and I was looking to get some clarification.

The Convener: Okay. Thank you. I thank the minister, as we have run over time a little.

I briefly return to where we started, which was the supply chain development programme. The committee's inquiry was prompted by disruptions to supply chains. Ms Hyslop picked up on some of those issues. How do we put resilience into the system to deal with disruptions? The supply chain development programme seems to be focused more on developing new supply chains and supporting supplier development and not so much on how we make sure that we as a country are fit and able to respond to unexpected shocks to our economy. People think that such things are never going to happen, but we have had three in the past few years. Would the supply chain development programme be the focus for that, or is somewhere else in Government looking at how we respond to such events?

Ivan McKee: A number of parts of Government look at that. You are right that the supply chain development programme will look at opportunities to build Scotland's economic capacity onshore, and establish in Scotland robust supply chains, where we recognise that we have the capability to compete globally and can build indigenous industries on the back of that.

Clearly, if something happens that brings a risk to food supplies, for example, that is resilience work, which happens in the Scottish Government resilience room—the Scottish Government group that is led by the Deputy First Minister. That group would look at those specific and very short-term resilience issues, and at other aspects of disaster recovery.

The Convener: I can take a question from Graham Simpson, if it is very brief.

Graham Simpson: It is. I seek clarity on the STPR2 delivery plan, which Andy Park mentioned. The minister's response to the committee says that that delivery plan will be published "later this year". Mr Park has just said that there is slippage on that. He used the word "spring", which can mean quite a bit.

People have been waiting for the plan for some time. The committee's report refers quite heavily to the road network, which is why Mr Halcro Johnston was asking about it. Why is there slippage, and when exactly will we see the plan?

Andy Park: It is relatively straightforward. The original publication date was based on what we thought was the certainty of the resource spending review and the revisiting of the capital spending review in the spring; whereas, over the summer, various changes have happened and there is greater uncertainty over budgets. It has been recommended that we delay the publication of a plan until we have certainty on budgets.

The STPR2 final report, with the recommendations, will come out before Christmas, but the plan itself needs the certainty of knowing what future capital budgets are, otherwise we would probably have to rewrite it within three months. *[Interruption.]*

Graham Simpson: You are getting support from Scottish National Party members, which is not surprising.

Are you saying that it will be out by March?

Andy Park: I am not giving a date. I was saying that it will not come out until after Christmas, after the Scottish budget has been set and we know what the capital allocations are for the immediate few years, which we do not know at the moment. It could have been published before Christmas, but it makes no analytical or practical sense to do that now, because we do not have that certainty. We will perhaps have a little more certainty next week, but we want to wait until that feeds through the budget processes.

It is fairly straightforward. If we published it now, we would have to revise it as soon as we knew about the money.

Graham Simpson: I apologise for the chuntering in the background.

The Convener: That brings us to the end of the evidence session. I thank the minister and his officials for attending. I move the meeting into private session.

11:44

Meeting continued in private until 12:26.

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Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

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